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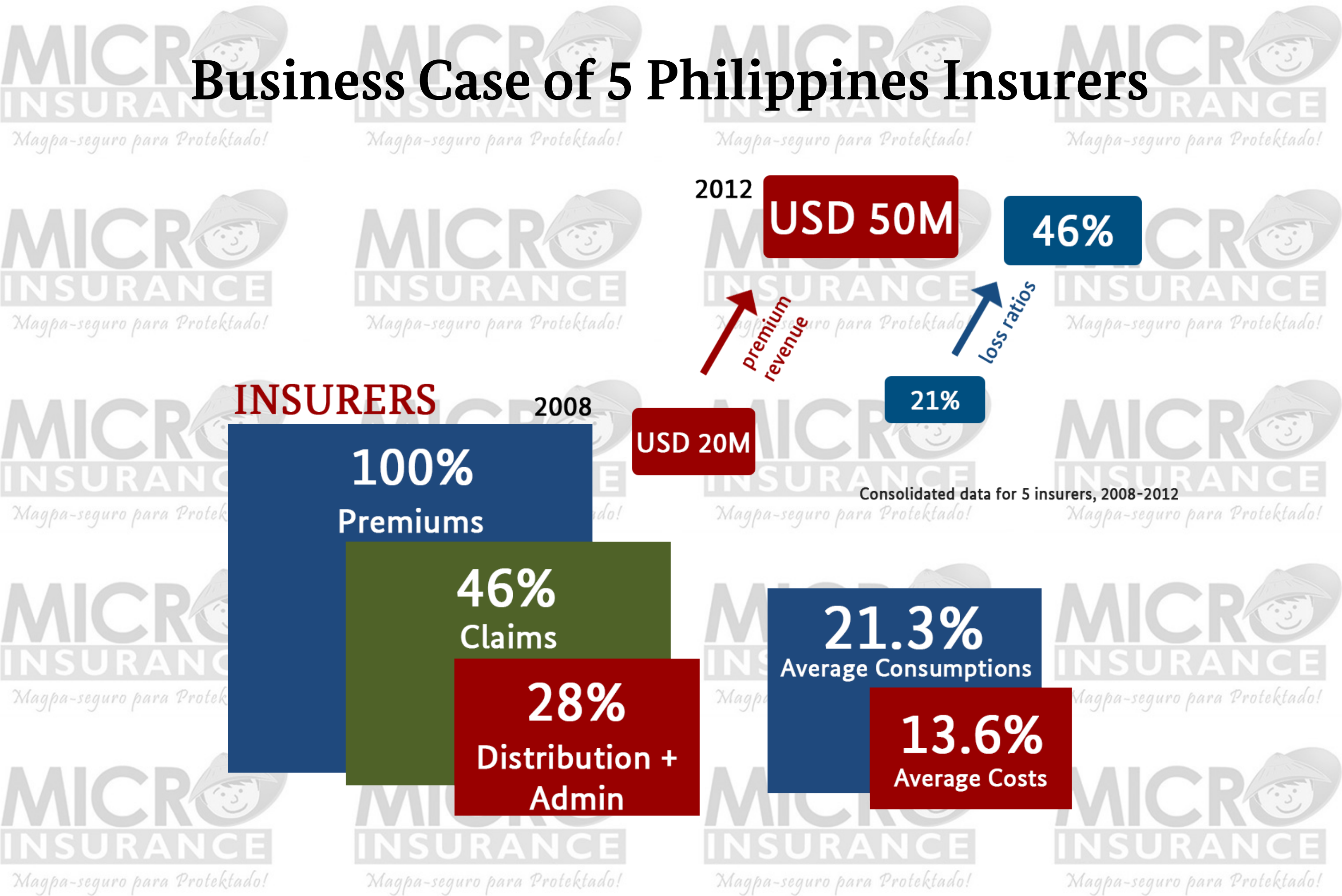

Regulatory Impact Assessment Microinsurance Philippines

Study Report
GIZ RFPI Asia
Manila, November 2015

Deutsche Gesellschaft fur Internationale Zusammenarbeit
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Special thank you goes to the late Director Joselito S. Almario of the Department of Finance-National Credit Council (DOF-NCC) for his input during the RIA assessment and for critical review of the initial draft of the report. Director Itoy was fondly called the grandfather of Microinsurance Philippines. He led and chaired the work of all TWGs from January 2009 until May 2015.

This RIA report would not be possible without the cooperation of the insurance industry and other stakeholders in Microinsurance who provided their time and valuable inputs during the interviews.

Message: DOF Undersecretary Gil S. Beltran

Increasing the access of low-income and informal sectors to a range of quality and sustainable financial products and services, including insurance, is a top priority in the national agenda of the government. Different policy and regulatory frameworks and circulars on microinsurance issued by the financial regulators especially the Insurance Commission have enabled the insurance industry to penetrate the said sectors, and allow financial intermediaries such as MFIs, pawnshops, telcos and consumer stores to provide more value-added services to their clients.

The Philippines is a leader in inclusive insurance measures among countries in Asia. The country has proven that microinsurance works and could be sustainable using full market-based approach. The role of government in providing clear policy directions has enabled the private sector and other stakeholders to contribute to the advocacy of microinsurance market development. The RIA report offers many good practices of proportionality principle in regulations. This has provided the Philippines the credibility and confidence to lead the agenda discussion on microinsurance and disaster risk financing during the APEC meetings of the Finance Minister's Process which concluded with the launch of the Cebu Action Plan.

We very much appreciate the support of GIZ through its current RFPI Asia program and its predecessor MIPSS project in 2009-2012. GIZ has been an effective partner of DOF-NCC and has provided continuous technical assistance and funding in implementing the processes of microinsurance market development.

Message: Insurance Commissioner Emmanuel F. Dooc

The growth in the number of Filipinos with microinsurance coverage of 19.8M, 25.2M to 31.1M in 2012-2014, from only 2.9M in 2009 is indeed impressive. In 2014, microinsurance contributed about 2% or Php3.81 Billion to net premiums written of the industry. The number of insurance providers' engaged in microinsurance continue to rise, from only 9 in 2006 to 63 (out of 138 insurance entities) in 2014.

Clear policy direction and proportionate regulatory guidelines provide the driving force to insurance market development. It provides certainty for the industry to invest in microinsurance activities. It gives public confidence to trust microinsurance products. The good numbers in microinsurance, as elaborated in this RIA report, is a product of multi-stakeholders dialogue and cooperation.

I am happy to inform that IC has issued the third regime of Microinsurance Regulations. The first regime in 2006 conceived the tier of MI-MBAs. The second regime in 2010 encouraged commercial companies to participate more in the market. Then microinsurance got institutionalized in the Insurance Code, as amended (2013). The 3rd regime called Enhanced Microinsurance Framework was issued in October 2015. It provides broader options to deliver microinsurance and clearer guidelines on reinsurance based on lessons after T. Haiyan.

Having already matured our experience in microinsurance, the Insurance Commission, together with our multi-stakeholder partners, is now dealing with issues and demand for microinsurance on pension, agriculture, and health. The regulatory frameworks for pension and MicroAgri have been adopted already and corresponding circulars issued in October this year. The Health Microinsurance Framework is almost complete where you will see a closer cooperation with the Department Health and the participation of the Health Maintenance Organizations (HMOs).

Thank you to our long-time development partner GIZ, through its RFPI Asia program, for the technical assistance and capacity building support through these years. The RIA study is a very good initiative and has provided us with good lessons and recommendations for our continuous work on microinsurance market development.

Message: Dr. Antonis Malagardis, GIZ RFPI Asia Program Director

The journey of the Philippines in microinsurance market development has been a source of inspiration and knowledge by many jurisdictions not only in Asia but also in other continents. Many countries visited the Philippines to learn such as from Indonesia, Nepal, Vietnam, Mongolia, Thailand, Ghana, Egypt, Germany, among others. Some countries have invited Philippines to share experience, and more countries have listened intently on how the Philippines made impressive progress in microinsurance.

The RIA on microinsurance 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.

Many of the RIA recommendations are already in the current works of IC and the DOF-NCC. They continue to innovate and respond to the changing market environment. The third regime of Microinsurance Regulatory Framework has been issued. Implementation in agriculture, pension and health microinsurance are in the pipeline. Consolidation initiatives to bring in more market players in microinsurance such as the HMOs and preneed companies are in full swing. Solutions to climate risks are being discussed.

GIZ is inspired to support further market development in the Philippines because of the quality of partnership with the DOF-NCC and IC and the vibrant response of the industry. RFPI is leveraging its resources to generate additional funding for more policy and regulatory initiatives especially in addressing climate risks, developing thematic insurance solutions in agriculture, health and MSMEs, and facilitating dialogue towards complementation with social insurance schemes without crowding out private sector initiatives and undermining sustainability. We continue to make reference to the solid good practices of the Philippines along with the promotion of ICPs and the proportionality principles in supporting microinsurance market development in other jurisdictions. (Visit http://www.inclusiveinsuranceasia.com to see the activities of RFPI countries in Asia)

Content

Tables

Figures

Boxes

Abbreviations

ADB	Asian Development Bank
ADR	Alternative Dispute Resolution
ADReM	Alternative Dispute Resolution Mechanism for Microinsurance
BFA	Bankable Frontier Associates
BMZ	Bundesministerium für wirtschaftliche Entwicklung und Zusammenarbeit
BPI	Bank of Philippine Islands
BSP	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
CARD MBA	Center for Agriculture and Rural Development Mutual Benefit Association
CARD MRI	Center for Agriculture and Rural Development Mutually Reinforcing Institutions
CARD	Center for Agriculture and Rural Development
CDA	Cooperative Development Authority
CDD	Customer Due Diligence
CGAP	Consultative Group to Assist the Poor
CIS	Cooperative Insurance Societies
CISP	Cooperative Insurance System of the Philippines
CL	Circular Letter
CLIMBS	Coop Life Insurance and Mutual Benefit Services
COC	Certificate of Cover
CP	Consumer Protection
DOF	Department of Finance
DOF–NCC	Department of Finance–National Credit Council
EIU	Economist Intelligence Unit
FinLit	Financial Literacy
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
IAIS	International Association of Insurance Supervisors
IC	Insurance Commission (of the Philippines)
ICPs	Insurance Core Principles
IFC	International Finance Corporation
ILO	International Labour Organization
IMC	Insurance Memorandum Circular
JMC	Joint Memorandum Circular
KYC	Know Your Customer
LGUs	Local Government Units
MBA	Mutual Benefit Association
MC	Memorandum Circular
MI	Microinsurance
MIP	Microinsurance Innovations Project
MIPSS	Microinsurance Innovations Program for Social Security
NAPC	National Anti-Poverty Commission
NATCCO	National Confederation of Cooperatives
NCC	National Credit Council
NGO	Non-governmental organization
NL	Non-life
OBOs	Other Banking Offices
OECD	Organization for Economic Co-operation and Development
PAGASA	Philippines Atmospheric, Geophysical & Astronomical Services Administration
PCFC	People's Credit Finance Corporation
PHP	Philippine Peso
PIRA	Philippine Insurers and Reinsurers Association
PLIA	Philippine Life Insurers Association
PS	Performance Standards
RBAP	Rural Bankers Association of the Philippines
RBC	Risk-Based Capital

RFPI	Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia
RIA	Regulatory Impact Assessment
RIA-MI	Regulatory Impact Assessment in Microinsurance
RIMANSI	Risk Management Solutions, Inc.
ROI	Rationale-Objectives-Indicator
SEC	Securities and Exchange Commission
SEGURO	Solvency, Efficiency, Governance, Understanding of MI, Risk Management and Outreach of clients
SSS	Social Security System
TA	Technical Assistance
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
WB	World Bank

Exchange rates:

Date	Rate USD 1	PHP 1
2006	PHP 51.2731	USD 0.0195
2011	PHP 43.2850	USD 0.0231
March - April 2010	PHP 45.2049	USD 0.0221
2012	PHP 42.2181	USD 0.0237
4 May 2014	PHP 44.5207	USD 0.0225

http://www.oanda.com/lang/de/currency/historical-rates/ (yearly average)

Executive Summary

Background

This regulatory impact assessment in microinsurance (RIA-MI) is the first effort of this nature. Drawing on other RIA methodologies, the RIA-MI was specifically developed for testing with one of the pioneers in microinsurance regulation, the Philippines.

The researchers from MicroInsurance Center followed six steps, starting from the rationale and policy objectives (Step 1) then, identified the various impact areas and stakeholders (Step 2). Next, selected indicators on the impact areas and institutions were defined (Step 3). In order to determine regulatory impact and extract lessons, data and information were collected (Step 4). Their analysis provided the basis for the assessment and for determining the impact (Step 5); and for the identification of strategic lessons (Step 6).

"Over the years, a broad-based and improved understanding of microinsurance developed, in terms of misconceptions that were done away with, mainly, with a new paradigm becoming valid:

- the poor can afford it
- commercial players are interested
- trust in insurance can be rebuilt (after few pre-need companies collapsed) and insurance sector is not the same
- community-based organizations are good delivery channels
- agents can also be institutional agents."

Department of Finance-National Credit Council

Policy, Regulation and Strategies

The regulatory framework in the Philippines has evolved over the past eight years, involving a host of legal instruments. The first microinsurance provider was regulated under the traditional insurance regulation, when CARD Mutual Benefit Association (MBA) was established in 2001. In 2006, five years later, the Insurance Commission (IC) issued a microinsurance circular defining a new tier of Microinsurance MBAs and a definition of MI products, marking the formal start of microinsurance regulation.

In 2010, a comprehensive set of sector strategies was developed by and for all stakeholders. The "National Strategy on Microinsurance" and the "Regulatory Framework for Microinsurance" were adopted in January 2010. Prior to this issuance, numerous stakeholders from the public and the private sectors contributed to the development of this microinsurance framework. The strategic framework resulted in two other strategy documents issued subsequently; namely the "Roadmap to Financial Literacy on Microinsurance (2011)" and the "Alternative Dispute Resolution Framework for Microinsurance (2012)".

The Regulatory Framework consists of the **six key elements** regulated by a variety of legal instruments [i.e. circulars of IC, circulars of the Bangko Sentral ng Pilipinas (BSP), joint circulars, and the insurance law], are being implemented as a consequence (e.g. the supervisory system). Below are the key elements (for the details on the legal provisions see Appendix 5):

(1) the **microinsurance definition**
(2) the formation of a **new tier of providers**: the MI-MBA and also, the **engagement of commercial insurers;** and a **reduced capital requirement** for those having 50% of their portfolio in microinsurance
(3) **product**-related rules such as a standard contract, bundling, the use of a logo, and product re-approval
(4) **agent**-related rules such as licensing, training, and the role that banks can play
(5) an approach for **alternative dispute resolution in microinsurance**
(6) the **supervisory system** for microinsurance

The first and very important regulatory action of the IC in relation to microinsurance was the creation of the ability of MBAs to offer microinsurance. Another important move was the opening of the microinsurance market to commercial and cooperative insurers and the formalization initiatives that attempted to bring Rural Banks into the formal intermediation space.

Private Sector Engagement

The number of insurers engaged in microinsurance is growing. Out of the 138 insurers in 2014, 63 are engaged in some form of microinsurance, from 52 of 138 in 2012. Microinsurance has become an important addition to the insurer's markets and in 2014 it represented 62% of all insurance coverages with 1.9% share of total premiums, up from 47% of industry insurance coverage and 2% share of total premiums in 2012. Life insurance is profitable for at least a sampling of life insurers. Some insurers note this introduction, with the MI promotion and incentives that went with it (including the moral suasion of the Commissioner himself) were important inputs to their decision to enter the market.

MI-MBAs are the dominant players since the development of the microinsurance market in 2006. At the end of 2012, the MI-MBAs were responsible for 38% of the 19.9Mn microinsurance coverage and 55% of total Php3.01B microinsurance premiums. Its dominance continued in 2013 at 50% of 25.2Mn coverage and 56% share to Php3.47B premium; and in 2014, 44% of the 31.1Mn coverage and 56% of Php3.81B microinsurance premiums. Between 2012 and 2014, MI MBA business (lives covered) grew on average 26% per year. At end 2014, there were 21 MI-MBAs, from 13 in 2009 and 1 in 2006. It is noteworthy that MI-MBAs rely almost exclusively on compulsory insurance for their members.

Commercial insurers' entry into the market has been strong since the Microinsurance Regulatory Framework was first introduced in 2010. The MI business of commercial companies in 2012-2014 grew an annual average of 34% in life companies and 11% in non-life companies. In 2014, life companies contribute 37% to microinsurance premium; 6% from non-life companies. The number of life companies reporting MI business growth from 5 companies in 2009 to 9 in 2014.

An array of partnership models has emerged that connect low-income consumers and insurers. The MFIs, i.e. rural banks, cooperatives and NGOs, have become agents serving millions of borrowers with insurance. Some created an MI-MBA, e.g. the federation of cooperatives (NATCCO) created their own MI-MBA. There are also a number of organizations that partnered with commercial insurance providers through group policy coverage arrangements. As MI-MBAs can only offer life products, this has pushed them to link with commercial insurers for non-life products. MFIs and MI-MBAs have helped in getting insurers to enter the MI market in a rather controlled manner with significant and practiced support from these intermediaries.

The number of MI agents licensed and active has grown to 170 at the end of 2014. There are 122 individual agents and 48 rural bank agents (although an additional 13 rural banks are fully licensed to offer MI as agents, though they are not yet actively selling MI products). In the Philippines, rural banks total 566, thus, many are still to be registered. However, according to the BSP, there are about 40 rural banks granted license by the IC to sell MI products with more than 100 in the pipeline. Most opted to partner with commercial MI providers by buying group MI policy coverage for their clients instead of getting a license.

The number and diversity of products has improved considerably. As of end 2014, 162 products were registered out of which 81 are life products and 81 non-life.

This is a sharp increase compared to 2009 when only 18 products (8 life products of MI-MBAs, 8 life products of commercial providers, which were mostly credit-life products and 2 non-life products) had been approved under the 2006 circular.

Loss ratios are a challenge. The 2012-2013 data shows MI-MBAs have an average loss ratio of 25%. Loss ratios of commercial insurers in non-life are rather low at 26% average; and not much better in life (33%). 2014 has remarkably high loss ratios due mainly to claims from typhoon Haiyan (local name Yolanda), with highest in non-life at 156% followed by life at 50% and 28% for MBAs. Industry loss ratio in 2004 was 186%.

The considerably lower claims ratio in microinsurance gives room for interpretation: it can suggest a lack of claims information with the beneficiary, difficult claims procedures, or policies that might be too complicated relative to terms and conditions.

In summary, the significant growth in the participation of insurance companies and MI-MBAs in microinsurance is due to several factors, including:

- The leadership of government in providing clear policy, regulatory and supervisory environments
- The demonstration effect where market leaders show the others that MI can work and then others move in
- The work of CARD to bring MI to the low-income market coupled with its massive growth
- A change in the mind-set of insurers recognizing the market potential of the lower-income market segment
- Technical assistance funds and support that have promoted microinsurance
- The growth of distribution channels that were interested in offering MI

Conclusions

(1) Public-private collaboration was an important driving force.

(2) More than a decade of multi-stakeholder engagement has changed the mindset of all players, who together achieved important milestones.

(3) Microinsurance has established itself as a significant business line with an important amount of production and other economic and social contributions.

(4) The landscape of private microinsurance providers has experienced significant growth.

(5) There is increasing competition for channels that “own” a client base.

(6) The products and covers available have been growing, however, the variety of insurance products such as health, agriculture or disaster remains somewhat limited.

(7) Client value can be improved, as suggested by low loss ratios.

(8) In the area of financial literacy, the government played a limited but important role as a catalyst.

(9) The formalization efforts, implemented under a joint effort between the various authorities, relied on four legs: informal insurers could partner with an underwriter as agent; form an MI-MBA; purchase a group policy for their members or form a new commercial company or a cooperative.

(10) Innovative market responses are coming up in terms of partnerships.

(11) The authorities invested significant amounts of effort and government resources when helping to build this industry. Also, several development partners provided financial and technical support over years.

(12) The IC facilitated innovation while constantly improving their know-how and capacity.

(13) The Department of Finance-National Credit Council (DOF-NCC), over many years, was able to push these changes as the commitment, funds and continuous support from the development partners was in place.

(14) The policy path chosen back in 2010 allowed stakeholders to make important improvements that facilitated expansion.

Indicators in the three Impact Dimensions

	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 fledge Microinsurance Division inside IC established	Excellent
	Other authorities and development agencies engaged	Engagement of other authorities and agencies	Good progress
Client value (quantiative 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

1. Introduction

1.1 Rationale, methodology and approach of the assessment

Over the past eight years, the microinsurance sector in the Philippines has received the support from many private and public stakeholders, with increasing intensity. There was a significant and continuous engagement of staff and experts from private and public organizations, under the leadership of the DOF-NCC and IC. These partners collaborated in a public-private process elaborating strategies and discussing regulations and products. In addition, two development partners have been providing continuous technical and financial support: the Asian Development Bank-Japan Fund for Poverty Reduction "Developing Microinsurance Project", and the BMZ-funded support project Microinsurance Innovations Project for Social Security (MIPSS), and its successor project Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia), implemented by GIZ (Deutsche Gesellschaft fűr Internationale Zusammenarbeit).

These partners, foremost the IC, the DOF-NCC-NCC and the RFPI, found that there is need for an objective exercise to determine the impact of any policy, regulatory or supervisory adjustment that aims at improving access to insurance, hereinafter called **Regulatory Impact Assessment of Microinsurance, RIA-MI**. Distilling lessons of broader application to those considering microinsurance regulation, or policy and supervisory changes, is also a value addition of the intended impact assessment. This allows for:

- generating knowledge and best practices on the regulation and supervision of insurance markets that will strengthen policy, regulatory and supervisory regimes in emerging markets and extend access to insurance;
- developing and disseminating information, assessment and training tools and other instruments that foster access to insurance; and
- analyzing, distilling lessons and reporting to stakeholders on the impact of regulatory initiatives on access to insurance.

> **Box 1: What is an RIA and what does it do?**
>
> **"RIA is an essential policy tool for regulatory quality".** A Regulatory Impact Assessment has the ultimate goal of ensuring that the benefits of government action justify the costs, and that the options chosen maximize benefits and minimize costs.
>
> Importantly, an RIA goes beyond merely measuring the outcomes of Regulatory, Supervisory, and Policy (RSP) approaches, such as indicating the number of providers of insurance. In fact, RIA is a decision-making tool based on a method of systematically and consistently examining selected potential impacts arising from government action. An integral part of the process is communicating the information to decision-makers and stakeholders in a way that can promote action.
>
> Generally, RIAs exist in a variety of forms and are used in multitude ways reflecting the various policy agendas of governments for example, by assessing business impacts, administrative and paperwork burdens, international trade, cost-benefit, environmental impacts, or stakeholders such as sub-national governments, aboriginal groups, or small businesses.
>
> *Sources: OECD (2008), Bankable Frontier Associates (2012)*

The **RIA-MI in the Philippines** aims at identifying, assessing and informing about the effectiveness of approaches in the areas of policy, regulation and supervision intended to promote an inclusive insurance market. This understanding should lead to a clear recognition of the effectiveness of different policy initiatives implemented in the Philippines. The results can be expected to help the regulatory and supervisory authorities in the Philippines and elsewhere to focus on those interventions that generate a greater impact. Relying on quantitative data and qualitative information from a variety of sources, and while focusing on the insurance sector, this RIA-MI will also consider interactions and overlaps between the various regulatory areas relevant for underwriting or delivering insurance services in the financial sector.

As no RIA methodology for microinsurance was available, a dedicated **RIA-MI Methodology** was developed for application in the Philippines.[1] Drawing on two other RIA methodologies[2] the proposed RIA-MI Methodology consists of 6 steps divided into two main pillars (see ***Table 1*** below). **Pillar 1** outlines the assessment benchmark, starting from the identification of the rationale and objectives of the policies (Step 1) along various impact areas and stakeholders (Step 2). Then selected indicators on the impact areas and institutions are defined (Step 3). **Pillar 2 determines impact and strategic lessons.** Here, data and information is collected (Step 4); their analysis provides the basis for the assessment and for determining the impact (Step 5), and for the identification of strategic lessons (Step 6). Table 1 provides an overview on these steps.

Table 1: Overview on RIA-MI Methodology

	Pillar 1		**Pillar 2**
Step 1 - **Public interest**	Identify rationale, and policy and strategic objectives	**Step 4 -** **Collection**	Collect data and information
Step 2 – **Research framework**	Define impact areas, stakeholders and main research questions	**Step 5 -** **Analysis**	Process tracking and assessment of impact
Step 3 - **Measures**	Define quantitative and qualitative indicators	**Step 6 -** **Policy changes**	Identify lessons for strategy and policy
	Defining the Assessment Benchmark		**Determining Impact and Extracting Strategic Lessons**

Source: adapted from Bankable Frontier Associates (2012) and Organization for Economic Co-operation and Development (2008)

The **approach taken** was following these six steps, but heavily relying on data collection in the Philippines. The considerations for implementation outlined in Box 2 also were used for the assessment during Steps 5 and 6. During the field visit and for data collection, a research grid (Appendix 1) served as basis for the interviews, which follows the strategic areas defined by the Philippine Government. The field visit took place from February 10th to 21st 2014 (see Appendix 2 for the list of persons and institutions that were interviewed). Intensive discussions were held with management and technical staff of insurers, intermediaries, three industry associations, staff and management of the IC, the Bangko Sentral ng Pilipinas, and the DOF-NCC, as well as a small number of clients. The visit culminated in a half-day stakeholder meeting in Manila on 21st February 2014, intended to collect stakeholder views and get feed-back on the preliminary findings.

[1] A first sketch of a generic methodology for a RIA in inclusive insurance markets was developed at end 2013 for the International Labour Office. This methodology was then advanced for and tested in the Philippines.

[2] The proposed methodology draws heavily on the inclusion-related Regulatory Impact Assessment Methodology of Bankable Frontier Associates (BFA) and its "Rationale-Objectives-Indicator (ROI)" assessment framework. The adapted methodology here is different from the BFA Methodology in terms of Step 1 (Rationale of the regulation) and Step 2 (Objectives of the regulation). From: BFA Concept Note (Sept 2012, Staschen, Dermish, Giovani). The now proposed RIA-MI merges the two BFA steps in a new Step 1 (Public interest), and introduces an additional Step 2: Research Framework. All the other steps are very similar. Furthermore, two documents were consulted from OECD (2008): *Introductory Handbook for Undertaking Regulatory Impact Analysis*, and *Building an Institutional Framework for Regulatory Impact Analysis*

Box 2: Considerations for Implementation of RIA-MI

1. Change can take two directions: be on the lookout for positive and negative impacts that certain RSP approaches can have on the various impact areas and stakeholders.
2. Identify unintended consequences that RSP approaches can create, as they provide important lessons.
3. Focus on few indicators: be careful not to end up with too much faulty and noisy data and develop a focused list of indicators that allows drawing a picture (which can be compared with other jurisdictions).
4. Keep focus versus broad picture: An RIA-MI can show a complete picture of policy interventions, or focus on certain RSP areas or stakeholders, depending on the intended level of effort and objective of the RIA-MI.
5. Be careful with causality: It is important to recognize that RSP actions are not the only drivers of microinsurance. Thus, assigning causality will be challenging. One way to address this is to identify a control group of countries, which underwent microinsurance market development, but were not supported by an environment of strong policy and regulatory interventions as has been the case of the Philippines.

From: OECD (various) and Bankable Frontier Associates (2012)

1.2 Country context

The Philippines is a low middle income country located in Southeast Asia. At the end of 2013, the Philippines was estimated to have a total population of 98.9 million people. In 2009, the proportion of Filipinos living below the poverty line was 26.5%. This is despite an increase in the country's economic growth rate in recent years. The real 2011 Gross Domestic Product (GPD) real growth rate was 3.6%, while in 2013 it was estimated at 6.8%. In 2013, the country's GDP per capita was estimated at USD4,700 compared to USD4,200 in 2011. Additionally, underemployment in the Philippines is about 20%, and approximately 40% of those employed are estimated to be working in the informal sector.[3] (see Appendix 3)

Recent studies and discussions highlight the importance of continuing to provide the poor access to various types of financial services in the country. This is limited because economic growth and development remains low due to insufficient intermediation between savers and investors, and inadequate access to finance which makes poverty reduction a difficult task. The nonbank financial subsector is quickly developing and playing an important role in the Philippines.[4] In the Philippines, there now exists great awareness and interest in microinsurance by both the government and private sector. This is due to microinsurance initiatives such as the establishment of various policies and regulatory measures.[5]

The Philippines also has a large and thriving microfinance market, but a certain dichotomy exists in the sector. Rural banks are highly regulated because they can mobilize deposits from the public. NGOs and cooperatives, serving 90% of the microfinance sector, remain highly unregulated, which hinders their development. Rural banking is primarily concentrated in specific regions and provinces, which often leaves gaps in access to financial services. To deal with this issue, NGOs have gained a nation-wide presence and have managed to boost financial activity, though the potential for growth remains. Growth in the financial sector is also hindered by natural disasters such as typhoons, earthquakes, landslides and floods. This creates some inherent risks for the microfinance sector and increases operating expenses for such institutions. As a result, there need to be increased risk management efforts and a wider use of technological innovations, such as mobile banking, to help reduce cost.[6]

3 CIA. World Fact Book. https://www.cia.gov/library/publications/the-world-factbook/geos/rp.html

4 Asian Development Bank. 2013. Philippines: Country Operations Business Plan (2014-2016): "Sector Assessment (Summary): Finance" PP 1-13. http://www.adb.org/sites/default/files/cobp-phi-2014-2016-sd-08.pdf

5 Asian Development Bank. 2013. Assessment of Microinsurance Service for the Poor: The Case of the Philippines. http://www.adb.org/sites/default/files/pub/2013/assessment-microinsurance-service-for-poor.pdf

6 Corps New. 2013. Interview with Gigantone, Jocelyn Investment Analyst for Asia, Symbiotics

The Philippines has one of the most prominent life insurance markets in Southeast Asia. However, there is still much room for growth as it only accounted for 1.14% of the country's GDP in 2012, valued at PHP 120.3 billion (USD 2.8 billion). The compound annual growth rate for life insurance between 2008 and 2012 was 16.3%.[7] The Philippine non-life insurance segment has also grown: between 2008 and 2012, written premium value increased from PHP 25.7 billion (USD 0.6 billion) in 2008 to PHP 46 billion (USD 1.1 billion) in 2012. Its compound annual growth rate was 15.7% during this time. Several factors have contributed to this change, such as the country's economic growth, particularly in the construction and automobile industries. Filipinos have also become more aware of the advantages of non-life insurance, especially due to the frequency of natural disasters in the country. Between 2008 and 2012, property insurance accounted for the largest share of the Philippines non-life insurance segment.[8]

The Philippines is the fourth-biggest recipient of remittances in the world after China, India and Mexico.[9] Remittances fuel household consumption and play a crucial role in the country's economy's growth. In 2012 remittances from Filipinos abroad hit a high of USD21 billion and amounted to almost 10 percent of the Philippines economy.[10] It is assumed that Filipinos send money back home because it is part of their culture. For instance, in November Filipinos traditionally send remittances to help their families prepare for Christmas. However, in 2013, agents at the remittance centers said that most of the money sent back was for families ravaged by the typhoon, which killed at least 3,982 people.[11] It is estimated that the trend of rising remittances will continue because the country is prone to natural disasters. Remittances mostly come from workers based in the United States, Canada, Saudi Arabia, Japan, the United Kingdom and Singapore.[12]

Box 3: The Philippine banking sector

"The **banking industry's** total assets accounted for 80% of the total resources and 76.2% of the country's Gross Domestic Product (GDP) in 2012. Non-bank financial institutions (which include private and public insurance companies, among others) accounted for the remaining 20%. The **number of banking institutions** (head offices) dropped further to 705 as of September 2012 from the year-ago level of 730, denoting the continued consolidation of banks as well as the exit of weaker players in the banking system. Banks (head offices) consisted of 37 Universal / Commercial Banks, 69 Thrift Banks, and 599 rural banks. Meanwhile, the operating network (including branches and other offices) of the **banking system increased to 9,301** in September 2012 from 8,965 during the same period the previous year.

The banking system's asset quality as measured by the **Non-Performing Loan (NPL) ratio sustained its improvement, easing to 2.6 percent** as of October 2012 from the 3.2 percent registered the prior year. Banks' initiatives to improve asset quality along with prudent lending regulations helped bring the NPL ratio below pre-Asian crisis levels. Outstanding loans of commercial banks, net of banks' Reverse Repurchase (RRP) placements with the Bangko Sentral ng Pilipinas (BSP), continued to expand, posting a 16.2 percent y-o-y growth as of end-December 2012. The Philippine banking system's **Capital Adequacy Ratio (CAR) on consolidated basis was at 17.6%,** which surpassed the 10% domestic regulatory minimum and 8% international norm and was comparatively higher than those of Indonesia (17.3%), Malaysia (17.3%), Thailand (14.8%) and South Korea (14.0%)."

Source: Portula and Vergara (2013), Case study: The Philippine experience on Microinsurance Market Development, for Training Program of Insurance Supervisors in Asia

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[7] Timetric. 2013. Life Insurance in the Philippines, Key Trends and Opportunities to 2017.Research and Markets. http://www.researchandmarkets.com/research/4hr7xh/life_insurance_in

[8] Timetric. 2013. Non-Life Insurance in the Philippines, Key Trends and Opportunities to 2017.Market Research.com. http://www.marketresearch.com/Timetric-v3917/Non-Life-Insurance-Philippines-Key-8035111/

[9] Remo Michelle. 2012. Overseas Filipino remittances up by 5% to P10 B in 1st half. Philippine Daily Inquirer. http://business.inquirer.net/76985/overseas-filipino-remittances-up-by-5-to-p10-b-in-1st-half

[10] Simone Orendain. 2013. Remittances Play Significant Role in Philippines. Voice of America. http://www.voanews.com/content/remittances-where-does-the-money-come-from/1683080.html

[11] JAKE MAXWELL WATTS and CHESTER YUNG. 2013. After Typhoon Haiyan, Overseas Filipinos Raise Their Remittances. The world Street Journal. http://online.wsj.com/news/articles/SB10001424052702304439804579205603658102742

[12] Remo Michelle. 2012. Overseas Filipino remittances up by 5% to P10 B in 1st half. Philippine Daily Inquirer. http://business.inquirer.net/76985/overseas-filipino-remittances-up-by-5-to-p10-b-in-1st-half

1.3 Financial sector

1.3.1 Financial sector overview

The total resources of the Philippine financial system as of June 2012 reached PHP 10.45 trillion (USD 254.87 billion), **8.3% higher** than the previous year. However, the Philippines' financial sector is characterized by low interest rates and constant remittances. Economic growth and development remains low due to insufficient intermediation between savers and investors, and due to restricted access to finance which makes poverty reduction a difficult task.

As a result, the nonbank financial subsector is quickly developing and playing an important role in the Philippines. However, the nonbank financial sector does not provide sufficient supervision which tends to lower investor confidence and raises systemic risks. The lack of fiscal and administrative autonomy could explain the gaps in the nonbank financial sector.[13]

Banks

Banks fail to provide adequate intermediation to the market despite their prominence. Banking institutions account for a high percentage of financial system assets and in 2012 commercial and universal banks dominated the banking sector with 90% of total banking assets. Although capital adequacy is robust, loan portfolios are concentrated because banks tend to invest in a small number of top creditworthy firms. This is partly due to an inability to accurately judge credit risk in smaller non-listed firms. In addition, banks are concentrated in the three largest regions of the Philippines, leaving about 37% of all municipalities in the Philippines without a banking office.[14]

Microfinance

The Philippines is considered one of the countries in Asia with a developed microfinance industry that provides services to the low-income sector. Microfinance Institutions (MFIs) provide various types of products that consider the entrepreneurial and consumption habits of Filipinos. The Philippines has been lauded globally for its microfinance and financial inclusion initiatives. For four

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[13] Asian Development Bank. 2013. Philippines: Country Operations Business Plan (2014-2016): "Sector Assessment (Summary): Finance" PP 1-13. http://www.adb.org/sites/default/files/cobp-phi-2014-2016-sd-08.pdf

14 Asian Development Bank. 2013 PP 1-13.

years in a row (2009-2012), the Economist Intelligence Unit's (EIU) global survey has ranked the Philippines as number one in the world in terms of policy and regulatory frameworks for microfinance.[15] The EIU survey 2014 scores the Philippines among the top five countries, because of "its highly capable regulator, optimal credit regulation and effective dispute-resolution mechanisms".

Some MFIs have also chosen to organize their clients into a mutual benefit association (MBA), to provide basic insurance products to their members. Cooperatives have invested in cooperative insurance societies, which provide and sell insurance products to their members. Some MFIs are also involved in informal insurance schemes.[16]

Despite these favorable factors, the microfinance sector in the Philippines remains heavily fragmented. Wealthy families mostly control the rural banks and only cater to the needs of wage earners, while low-income people mostly rely on NGOs and other networks.[17]

The microfinance market in the Philippines is different from other countries because it does not rely on foreign funding. This is primarily due to the National Strategy on Microfinance crafted in 1997 and the Regulatory framework of 2001 wherein government financial institutions (GFIs) were required to do wholesale lending to MFIs (rural baks, cooperatives and MFI-NGOs) instead of retail lending to end-borrowers to avoid direct competition with private sector players. Commercial banks, in view of their limited presence in the countryside, likewise adopted the wholesale lending model for their microfinance lending operations. For instance, Filipino microfinance players fund themselves by borrowing from public financial institutions such as the Small Business Corporation (SBC) and People's Credit Finance Corporation (PCFC). The presence of these local funders could explain why the Philippines is a difficult market to enter for foreign funders even though it is one of the largest microfinance markets.[18]

The Bangko Sentral ng Pilipinas is responsible for maintaining a legal framework for microfinance in the Philippines. Rural banks enjoy the advantage of the regulatory atmosphere in the country. For instance, the Senate passed the law allowing foreign entities to own up to 60% equity stakes in rural banks. On the other hand, NGOs that are supervised by the Securities and Exchange Commission (SEC) and Cooperatives that are supervised by Cooperative Development Authority (CDA) are comparatively much less regulated but cannot mobilize deposits either.[19]

The Philippines microfinance market has gained recognition due to the success of its legal framework. The framework advocates for a precise definition of microfinance and highlights practical ratios to maintain. It also encourages broader outreach by allowing microfinance owners to establish micro banking offices (MBOs) in areas where microfinance banking services are unavailable.[20]

Despite the positive development, according to the Financial Sector Program Update Report, only 30% of Filipinos have deposit accounts at a financial institution, which is lower than in much of East Asia.[21] Notably, data from NGOs and Cooperatives, the main providers of financial services, is not included in this report. Despite the increase in formal financial institutions, access to and use of financial services is still limited for poorer and rural areas.

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15 GIZ and Insurance Commission. 2013. Portula Dante, Reynaldo Vergara. Case Study: The Philippine experience on Microinsurance Market Development for Training Program of Insurance Supervisors in Asia

16 Asian Development Bank. 2013. Assessment of Microinsurance Service for the Poor: The Case of the Philippines. http://www.adb.org/sites/default/files/pub/2013/assessment-microinsurance-service-for-poor.pdf

17 Corps New. 2013. Interview with Gigantone, Jocelyn, Investment Analyst for Asia, Symbiotics

18 Corps New. 2013.

19 Corps New. 2013.

20 Corps New. 2013.

21 The World Bank. 2011. *Philippines - Financial sector assessment program update: access to finance*. Washington DC: World Bank. http://documents.worldbank.org/curated/en/2011/07/18019988/philippines-financial-sector-assessment-program-update-access-finance (based on data from 2009).

Insurance sector

The Insurance Code (2013) of the Philippines provides the framework for the regulatory and policy environment of the insurance sector in the Philippines. According to the Code, the IC is the sole regulatory authority responsible for supervising all those involved in this industry. The insurance industry is made up of commercial life and non-life insurance companies, MBAs, cooperative insurance societies, agents, and brokers. All these groups are required to have a license to operate from the IC. Tax distortions on the non-life side infringe though on growth initiatives.

> **Box 4: Facts of the insurance sector**
>
> **Insurers:** As of 31 December 2014, there were 138 licensed insurance entities. This include 70 and 27 respective commercial non-life and life insurance companies, 4 composite companies, 1 professional reinsurer, 34 MBAs, and 2 servicing companies. Among the entities are 2 cooperative insurance societies, one of which is a composite.
>
> **Business volumes**: In terms of asset and insurance premium volume, the Philippines ranks fifth among the ASEAN countries. The total assets of the insurance industry amounted to PHP 1,071.6 billion (USD 24.1 billion), 79.8% of which were contributions in the life sector, 15% in the non-life sector and 5.2% in the MBA sector. The total net worth of the insurance industry was PHP 181.2 billion (USD 4.1 billion).
>
> **Insurance penetration** in life and non-life accounted for 1.2 % of GDP in 2011, 1.45% in 2011 and 1.78% in.2013.
> Estimated life insurance **coverage** rose from 18.29% of the population in 2011 to 24.43% in 2012 and 32.45% in 2013. Insurance **density** (premium per capita) in 2013 was PHP 2,084 (USD 47): PHP 1,789 (USD 40) for life and PHP 295 (USD 7) for non-life.
>
> *Sources: Insurance Commission; and Portula and Vergara. (2013), updated to 2014 figures*

Microinsurance industry

Microinsurance in the Philippines has seen substantial advances in recent years in terms of outreach, supply, and regulation. Distribution of microinsurance was historically dominated by credit providers in the form of mandatory insurance products bundled with loans. Many of those products were in the past offered informally, though the availability of formal microinsurance has increased dramatically in recent years and parallel efforts by the IC to crack down on informal insurance operations have led to substantial moves toward formalization of the market. In 2015, a Task Force under the leadership of the DOF-NCC and the IC has been created to look at the progress of the formalization effort, initially pushed by the Joint Circular of IC; CDA and SEC.

In the Philippines, the first steps of microinsurance were driven by the Microfinance Sector, mainly CARD MBA which was set up in 2001. CARD MBA has been a role model for a new tier of institutions that was only created a few years later, in 2006. Inspired by the MI-MBAs, slowly, the commercial insurance sector became increasingly engaged.[22]

Starting with the first Microinsurance (MI) Circular IMC 9-2006 (see section 2.3) in 2006, the sector has been promoted strongly by the IC (see Box 5). The first circular was mainly an initiative of the MBAs and the IC. Especially after 2008, when assistance of the development partners came, the DOF-NCC and IC have continuously been driving initiatives on microinsurance, such as the establishment of various policies and regulatory measures, collaboration with other authorities (see Box 5), sector dialogues and Technical Working Groups (TWGs).

[22] Access to Insurance Initiative. Llanto, Gilberto, Geron Piedad and Almario Joselito (2009). Philippines case study

Box 5: Authorities supporting microinsurance market development

The main authorities in charge of the Financial Sector, and those involved in microinsurance, are the Insurance Commission, the Bangko Sentral ng Pilipinas, the Securities and Exchange Commission and the Cooperative Development Authority.

A main player is also the Department of Finance-National Credit Council (DOF-NCC), the entity in charge of policy and strategy development for the microfinance sector including microinsurance. All these authorities were collaborating to advance insurance market development in the past years, with the driving forces being the DOF-NCC and the IC.

Source: National Strategy

In 2014, net written premiums for both life and non-life microinsurance products amounted to PHP 3.81 billion (USD 85.8 Million). This represents 1.9% of the net premiums written by the insurance industry (0.9% of life premiums, 0.8% of non-life premiums, and 33% of MBA premiums).

> "When we started with MI in 2006 there was no response from the market."
> *Insurance Commission*

Also in 2014, claims across the insurance industry totaled more than PHP 206.3 billion (USD 4.6 billion). Microinsurance claims represented a mere 0.82% of this (0.39% for life, 0.19% for non-life, and 0.29% of the MBA total claims).The aggregate claims ratio for the industry was 186% while the **claims ratio for microinsurance was 78%.** 2014 was a bad year for the industry brought about especially by typhoon Haiyan. Industry loss ratios in 2012 and 2013 were at normal level of 35% each year. Microinsurance loss ratios in the same years were at 30% and 26%, respectively. The report "Aiding the Disaster Recovery Process – the Effectiveness of Microinsurance Service Providers' Response to Typhoon Haiyan"[23] stated that as of July 2014 microinsurance providers paid claims to 111,461 policyholders/beneficiaries amounting to Php532M. Haiyan hit the Philippines in November 2013. This reflects relative consistency for the period 2012 through 2014, over which the average claims ratio for the industry and MI was 86% and 45%, respectively.[24] The lower claims ratio in normal years gives room for interpretation, and suggests a number of issues for microinsurance which emerged during discussions with industry, related parties, and results from other studies by the authors. These may include, among other things.[25]

- Lack of claims information with the beneficiary
- Difficult claims procedures
- Policies that might be too complicated relative to terms and conditions
- Policyholders who may not be aware of their cover
- Product design issues where loss experiences of clients are not well reflected in the policy cover

Though a relative perspective the microinsurance sub-sector of the insurance industry is still rather small when considering premiums only 1.9% contributions (with premiums as the raw material for potential profits), when considering client volumes, microinsurance has grown to a substantial percentage of the market (62% or 31.1 million of the total 49.8 million people that are said to be covered by insurance in the Philippines in 2014).

In 2008, there were 6 licensed MI-MBA's; at end 2014 the number of mutuals fully dedicated to MI had increased to 21. Likewise, commercial insurers' engagement was limited to three in 2004 and has built to 42 at the end of 2014.

[23] Study commissioned by Microinsurance Network and GIZ RFPI Asia

[24] Note that before 2012 there is virtually no MI only data except for the MBAs and MI-only MBAs.

[25] Note that a paper by the Micro Insurance Centre's MILK project that assessed the microinsurance business of five Philippine life insurers over five years noted that between 2008 and 2012, claims ratios (for these five institutions) rose from 21% to 46%, while remaining profitable for the microinsurers.

The total 63 microinsurers [26] are subdivided as follows:

- Life microinsurers: 18
- Non-life microinsurers:24
- MI-MBAs: 21

This significant growth in the participation of insurance companies and MI-MBAs in microinsurance is due to several factors. These factors include, among others (in no particular order):

- The policy, regulatory, supervisory environment being favorably structured for MBAs (2006 circular) and has effectively encouraged commercial companies to go down market (2010 MI circular).
- The demonstration effect where markets leaders show the others that MI can work and then others move in
- The work of CARD MBA to bring MI to the low-income market coupled with its massive growth and acting as a role model for other MI-MBAs
- The MI-MBA association Risk Management Solutions, Inc. (RIMANSI) supporting the set-up and management of sister MI-MBAs
- The saturation of the traditional market driving insurers down-market
- Donor funds that have promoted microinsurance: GIZ, ADB, USAID[27], Gates Foundation, the ILO Microinsurance Innovation Facility, and many others
- The growth and engagement of distribution channels that were interested in offering MI

In terms of products, the IC has registered 162 life, non-life and bundled products as shown in ***Table 2***. Among those are 83 life products and 79 non-life products.

Table 2: Products registered as of December 2014

Insurers	Products registered under 2006 regulation	Products registered under 2010 regulation	Total
Life	8	41	**49**
Non-Life	2	79	**81**
MI-MBAs (life)	7*	25*	**32**
TOTAL per regulation	**17**	**145**	**162**

Source: Data collected by authors from Insurance Commission

*One of which was re-registered (TSPI) Amended Insurance Plan.

Though this paper will show clear benefits from the introduction of the MI legal framework, it is also clear that this framework is not nearly the sole driving force behind MI development and expansion in the Philippines. For many years, the microcredit sector was the driving force.

[26] Note that the size of engagement of "microinsurance" varies considerably. The study considers an insurance company a "microinsurer" once it has registered a product.

[27] United States Agency for International Development

2. The policy framework and its implementation

2.1 Overview of policy framework and strategic objectives

Financial inclusion policies relying on insurance for risk protection: Financial inclusion in the Philippines has been based on a diversity of financial services including insurance. This was recognized already back in 1997, when the *National Microfinance Strategy* laid out the vision "to have a viable and sustainable private micro (financial) market with the government providing a supportive and appropriate policy environment to the market." In subsequent years, Philippine policymakers have clearly identified the role for microinsurance in financial inclusion efforts set out in the national development agenda.

> The DOF-NCC had crafted the national strategy and the regulatory framework for microfinance, which was very successful. This led to the microinsurance effort, as microinsurance was seen as part of microfinance. The DOF-NCC led this process since they were the only ones with real experience doing such a framework. Also the prior success was leveraged to give NCC credibility.
> *Bangko Sentral ng Pilipinas*

Microinsurance was rooted in the *Medium-Term Philippine Development Plan 2004-2010* which considers poverty alleviation a principal development objective with the stated goal of giving the disadvantaged sector preferential access to social protection, safety nets, and access to financial services such as microfinance. The plan tasks the government with providing an enabling environment for private business and enterprise, which are seen as the 'engines of growth' in the sense that jobs and outputs are created by the private sector. Government considers that the private sector has a large role to play in the development of microinsurance, whose beneficiaries would be poor households and the informal sector.

The *Philippine Development Plan 2011-2016* envisions a "regionally responsive, development-oriented and inclusive financial system which provides for the evolving needs of its diverse public"; and a financial system in which "everyone has access to all types of financial services, including insurance services". The plan includes topics in financial sector development that can be expected to spur microinsurance development such as the use of alternative products, the delivery of financial services (such as microinsurance) in underserved and unserved areas and the use of agent banking and other non-bank financial institutions as delivery channels.[28]

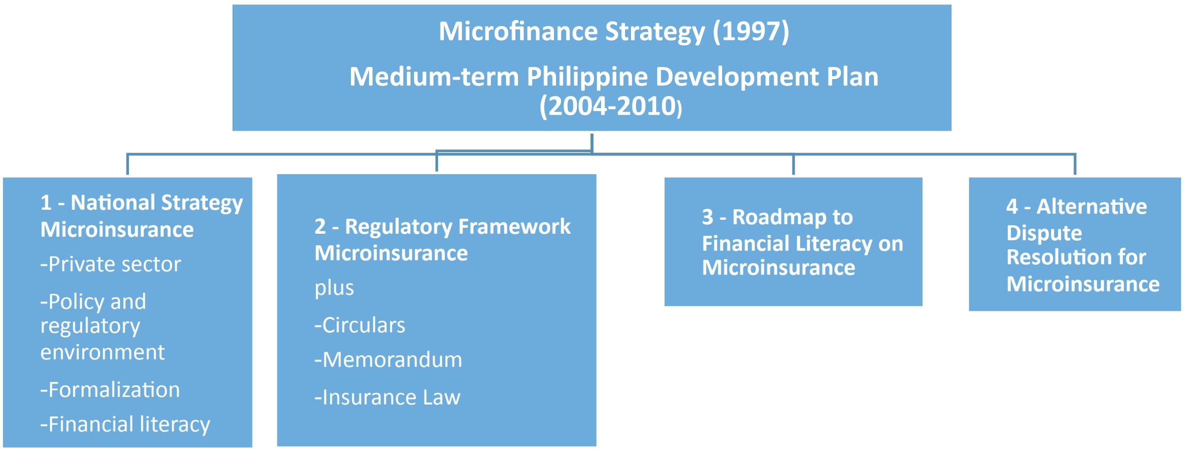
Eight years of government engagement in promoting microinsurance: Starting in 2006, the Philippine Government has developed and implemented a comprehensive and, over the following years, evolving policy, regulatory and supervisory framework for improving access to insurance with a focus on the low-income segment. The main feature of this engagement is, apart from the comprehensive strategic framework, the involvement of the private sector through continuous public-private dialogues related to all topics that were laid out in the strategies.

Department of Finance and IC as drivers, working via Technical Working Groups: In terms of the stakeholders driving that process and engaging in it, the DOF-NCC and the IC spearheaded microinsurance policy formulation and regulation. They were supported by the Bangko Sentral ng Pilipinas, the Cooperative Development Authority, and the Securities and Exchange Commission. These authorities – in close dialogue with and supported by the private sector – developed a series of strategic documents defining the five strategic objectives which provide the structure of this chapter. The public and private stakeholders formed several Technical Working Groups (TWGs) which had regular meetings and supported the process of developing strategies, tools, standard products and circulars.[29]

[28] Philippine Development Plan 2011-2016
[29] TWG meetings normally take place for 1-2 days outside of Manila. Before a TWG is set up, a TWG organizational meeting (chaired by DOF-NCC) is called for to agree on its tasks, deliverables, number of meetings needed to deliver the deliverables and schedule of

Four sector strategies building the policy framework (called "Microinsurance Framework"): Between 2010 and 2013, the strategic documents outlined in **Figure 1** were issued which break down the above policy documents into important key topics intended to be pursued.

Figure 1: Overview of "Microinsurance Strategy"



1 - The **National Strategy Microinsurance (January 2010)** defines the vision and objectives, roles of public and private stakeholders and key strategies to be pursued in enhancing access to insurance of the poor. It stipulates that "the objective is to provide the poor increased access to microinsurance products and services. This will be achieved through the adoption and implementation of the following four key strategies:

a. private sector participation,
b. policy and regulatory environment,
c. formalization, and
d. financial literacy.

These strategies are partly also laid down in the Regulatory Framework.

2 - The **Regulatory Framework Microinsurance (January 2010**) stipulates that "The objective is to provide access to financial services (microinsurance included) to the majority of the poor households and microenterprises." In accordance to this, a viable and sustainable private insurance market for the poor is envisioned. The Framework refers to the four key strategies of the National Strategy above (named a.-d.) and lays down the objective, which is to provide a policy and regulatory environment that will

- facilitate the **participation of the private sector** in providing risk protection for the poor
- ensure that the **rights and privileges of the insured poor** will be protected and promptly acted upon;
- give insurance providers flexibility to put in place the necessary **safeguards against fraudulent and scrupulous claims**
- provide a **formalization path** for existing informal providers[30] to transform themselves into formal microinsurance providers.

meetings (usually once a month). Then the outputs of the TWG (i.e. regulatory framework, national strategy, FinLit roadmap, ADReM) are submitted as „exposure drafts" to the insurance associations to solicit comments, while simultaneously the TWG team conducts stakeholders' consultations around the country (in selected key cities) to also solicit comments from intermediaries and other stakeholders who are operating in other parts of the country.

[30] Providers are insurers and intermediaries

3 - The **Roadmap to Financial Literacy on Microinsurance (January 2011)** “envisions adequate risk protection for the low-income sector through a strong insurance culture among the Filipinos” and “to achieve this, key stakeholders shall build their capacities, increase their knowledge and improve their skills to become proactive in the provision and promotion of microinsurance”.

4 - The objective of the **Alternative Dispute Resolution Framework for Microinsurance, ADReM (October 2012**) is to “provide avenues to settle dispute through the swiftest and most accessible means”. It requires all insurance entities, agents and brokers who are engaged in microinsurance business to follow mediation-conciliation processes of claims dispute based on parameters offset under the banner Least cost, Accessible, Practical, Effective and Timely, or LAPET.[31] The ADReM processes are to be incorporated into the regulatory framework governing the Philippine microinsurance industry in order to provide options for resolving disputes outside the courtroom. The ADReM framework was also complemented by four circulars in July 2013. The circular letters 15 to 18 provide guidelines on the procedures for accreditation of mediators and guidance for the implementation of ADReM by the various industry stakeholders (see Appendix 6 – Relevant legal pronouncements over time).

Table 3 provides an overview of the strategic picture resulting from these various strategies. Note that a fifth strategic goal – consumer protection - was found to be underlying in the strategies and their elements. That is why we came up with a total of five Key Strategies. In the following, we call this comprehensive approach the “Microinsurance Framework.”

Table 3: Overview of Key Strategies and all five Objectives

<table>
<tr><th>Key Strategies</th><th colspan="2">Strategic Objectives</th></tr>
<tr><td>1 - Private sector participation</td><td>Increased participation of the private sector in the provision of microinsurance services</td><td rowspan="4">5 - Consumer Protection - Rights and privileges of the insured poor are protected</td></tr>
<tr><td>2 – Regulation and policy (including supervision)</td><td>Establishment of an appropriate policy and regulatory environment for the safe and sound provision of microinsurance by the private sector</td></tr>
<tr><td>3 - Formalization</td><td>Mainstreaming of existing informal insurance, insurance like, and other similar activities/schemes</td></tr>
<tr><td>4 - Financial literacy</td><td>Institutionalization of national financial literacy framework</td></tr>
</table>

Source: Authors based on inputs from strategy documents in the Philippines

The five Key Strategies and related strategic objectives will be the basis for the assessment of the status of implementation provided in the following sub-chapters of section 2.

2.2 Strategic Objective 1 - Private Sector Participation

2.2.1 Rationale

Private sector as driver: The private sector in microinsurance includes insurance and “insurance-like” providers (see Box 6), as well as intermediaries and support institutions. Private insurers (including insurance-like providers) are seen in the National Strategy as the drivers of microinsurance in the Philippines. By developing and providing microinsurance products it is

[31] Portula et al (2013)

understood that these insurers will be able to supply insurance products to the low-income markets that are simple, affordable, and innovative. Because insurers take the insurance risk they are seen as the leaders in microinsurance.

Intermediaries as important players: The more recent realization in much of microinsurance globally has been that microinsurance is driven by the intermediaries. It is the intermediaries that manage the markets, generate the clients, and provide the service. In many ways they have become more important than the risk carrier. Intermediaries drive scale (the most important piece of a business case), determine the premium cost (because of their commission demands), and can move masses of people between insurers as they choose.

Box 6: Insurance and Insurance-like Providers

"Private insurance and insurance-like providers shall take the lead role in directly providing microinsurance products and services to the poor. These are the life and non-life insurance companies, Cooperative Insurance Societies (CIS), Insurance / Service Co-operatives, Mutual Benefit Associations (MBAs), pre-need companies and Health Maintenance Organizations (HMOs). They shall:

a. Provide sound and viable microinsurance products and services;
b. Engage in sustainable operations following the principles of good governance, prudential standards and appropriate regulations;
c. Develop simple, affordable and innovative microinsurance products and services tailor fitted to the needs of the poor;
d. Complement social insurance products and services provided by government-run social insurance providers; and
e. Increase outreach at the least cost through partnership and networking with community based organizations, Microfinance Institutions (MFIs), social insurance providers, LGUs and other concerned government agencies."

Source: Philippines National Strategy – Microinsurance

Key Strategy 1, Private sector participation, is closely interrelated with the other Key Strategies (Figure 2). This output is linked to the regulation strategy as its fundamental base for operations. The formalization strategy created larger markets for formal microinsurance and provides opportunities on the insurers who had access to greater distribution. The financial literacy strategy was intended to develop a demand for microinsurance to which the insurers should respond with better products for a wider and more receptive market. Finally, consumer protection issues cut across all strategies as a critical strategy that will push insurers and others toward better consumer products and services.

Figure 2: Overview of Key Strategies and Strategic Objective 1

Key Strategies	Strategic Objectives	
1 - Private sector participation	Increased participation of the private sector in the provision of microinsurance services	5. Consumer Protection - Rights and privileges of the insured poor are protected
2 - Policy and regulation (including supervision)		
3 - Formalization		
4 - Financial literacy		

2.2.2 Stakeholders, activities and outcomes

In its first years, the development of the microinsurance market in the Philippines was shaped in part by a well-developed credit market. Still today, microinsurance continues in large part to be offered through microfinance NGOs, rural banks, and cooperatives, in the form of mandatory insurance products combined with loans or memberships. However, more recently, these channels have begun to offer voluntary products to their clients, and new distribution channels are beginning to emerge, including pawnshops and remittance providers, as well as new mobile technology tools for delivering products.[32]

> "Another key feature of the microinsurance market in the Philippines is the presence of competition in credit markets and in insurance markets. Access to credit is widespread, and staff of delivery channels indicated that borrowers consider the insurance coverage to be a valuable component of their loan package, and will 'shop' for better insurance coverage and / or service."
>
> *Pure intentions, Microinsurance Network (2014)*

Microinsurance Mutual Benefit Associations were the pioneers in many ways, leading the insurance market to the low-income populations. The first MI-MBA was established in 2001, which made a case for sustainable and massive microinsurance services through a range of mandatory MI products sold through their partner NGO MFIs and MFI banks. The popularity and resulting growth of these MI-MBAs drove volumes to microinsurance. The infrastructure of insurer and distribution so closely linked has been an important combination which leads to this success. These MI-MBAs still mainly rely on mandatory products for their growth and success.

The legal requirement that MI-MBAs can only offer life products has pushed them to link with commercial insurers. This has helped in getting insurers to enter the MI market in a rather controlled manner with significant and practiced support from the MI-MBAs. In 2012, the first year in which reasonable microinsurance premium data is available, the **MI-MBAs were responsible for 55% of total microinsurance premiums**. Key growth numbers for the MBAs are provided in ***Table 4***.

Table 4: MBAs and MI-MBAs

MBAs	2012	2013	2014
Number of Members	3,298,076	3,633,366.00	4,080,467
Premiums (in million PHP)	5,178	5,605	6,435
Assets (in million PHP)	38,251	43,685	55,408
MBAs total	**28**	**28**	**34**
- **Out of which MI-MBAs**	**18**	**21**	**22**
Number of Members of MI-MBAs	2,526,423	2,782,116	3,135,515
Number of Members (with dependents)	**7,579,269**	**12,629,626**	**13,618,258**
Premiums (in million PHP)	1,663	1,954	2,147
Losses Paid (in million PHP)	428	471	589
Loss Ratio	25.7%	24.10%	27.46%

Source: IC data

[32] Magnoni et al (2013)

Commercial insurers

In most countries commercial insurers are the backbone of microinsurance. Unlike with microcredit where donors had to create an industry and its infrastructure in order to provide credit services to the low-income market, microinsurance is generally driven by the traditional commercial sector adjusting its products and processes for this market. In the Philippines, the commercial insurers, for the most part, followed the lead of the MFIs who set up mutual benefit associations with their members and showed that they could generate volumes seemingly efficiently and with some profit.

An unpublished country study of microinsurance in 2007 noted that commercial insurers had not shown great interest in MI. There were a number of instances of partner-agent models, but these had not been particularly successful. For example, CARD had terminated its partner-agent arrangement because the period within which claims were settled by its commercial partner took too long for MI clients. CARD then chose to go the MBA route. A number of commercial insurers were beginning to show interest in the MI market at that time, suggesting that the high capital requirement was not really a constraint. The commercial insurer most active in the MI market at that time seemed to have been Country Bankers, which was formed by the rural banks in 1965, primarily focusing on credit life.

Given a lack of quantitative data in the early years of the MI policy efforts, this assessment is helpful in reflecting the very limited nature of commercial insurers' initial involvement. There were commercial insurers offering some microinsurance prior to 2006. Cocolife was established in 1979 to provide insurance for the coconut workers. Country Bankers was started in 1960 by the rural banks to provide cover for their members and customers in the rural areas. CLIMBS, a composite insurer owned by cooperatives, started in 1971 "as an experiment in mutual protection". In 1994, CLIMBS was licensed as an MBA by the IC, in 2004 they were granted a life insurers license and in 2010 a composite license. Thus, there was microinsurance activity from the commercial and cooperative sectors; however, volumes were generally restricted to particular markets – coconut farmers, rural banks, and cooperatives, the product range was limited in its innovation for the low-income market, and service quality was often weak.

Table 5 provides key data on licensed commercial insurers (underwriters) in the Philippines over time.

Table 5: Commercial Insurance Providers (underwriters)

Number of Licensed Companies	2006[33]	2009	2010	2011	2012	2013	2014
Commercial insurers total:	**130**	**120**	**119**	**116**	**110**	**108**	**104**
Composite (1 Cooperative)	3	3	4	4	4	4	4
Life	33	32	30	30	29	26	27
Non-life	93	84	84	81	76	77	70
Professional Reinsurer	1	1	1	1	1	1	1
Servicing companies							2

Source: IC Data of 2014

The data show a general decline in the number of insurers (common in many countries during this period), likely due to consolidation and capitalization issues. This is not related to microinsurance.

[33] A2ii 2009 (Annual Insurance Report of IC 2006)

Table 6 below shows that from 2006 to2014 the number of commercial microinsurance providers increased from 9 in 2006 to 63 in 2014, offering 162 MI products as of 2014. This growth in interest in the market as well as innovation in products has occurred primarily during the period since the start of the microinsurance framework.

Table 6: Microinsurance industry overview

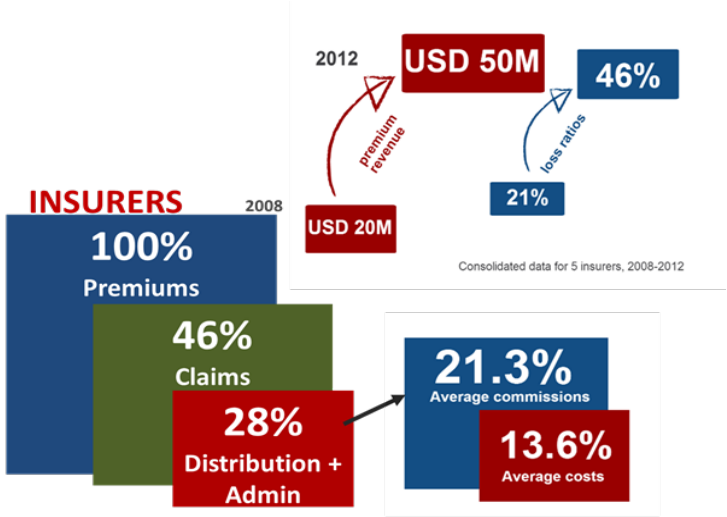
	2006	2012	2013	2014
Products	MI products mostly credit life, some life from MBAs and MI-MBAs	119 registered products. 69 life, 50 non-life	127 registered products. 75 life, 52 non-life	162 registered products, 81 life 81 non-life
MI-MBAs	6	18	21	21
Commercial providers active in MI	3 in 2006	12	31	42, including 1 composite
Intermediaries	No MI agent category	125 licensed as MI agents	105 as MI agents	170 as MI agents
	MFIs acting as group policyholders instead of an agent (in 2007, Cocolife had 300,000 insured via group policies)	- 26 rural banks - 96 individuals	- 39 rural banks[34] - 66 individuals	- 48 rural banks - 122 individuals
MI-MBAs policyholders (including dependents)	187,600 (2004)	7,579,269	12,629,626	13,618,258
Commercial and cooperative insurers - policyholders insured		Life: 4,226,460 Non-life: 8,077,464	Life: 4,700,434 Non-life: 7,879,672	Life: 7,584,573 Non-life: 9,896,681
Total number of MI coverage		**19,883,193**	**23,708,570**	**31,009,512**

Sources: IC data, A2ii Country Case (2008), RBAP Interview

The MicroInsurance Centre's MILK project studied the financial and operating results of five life microinsurance providers in the Philippines over a period of 5 years from 2008 to 2012. High level results are shown in ***Figure 3***.

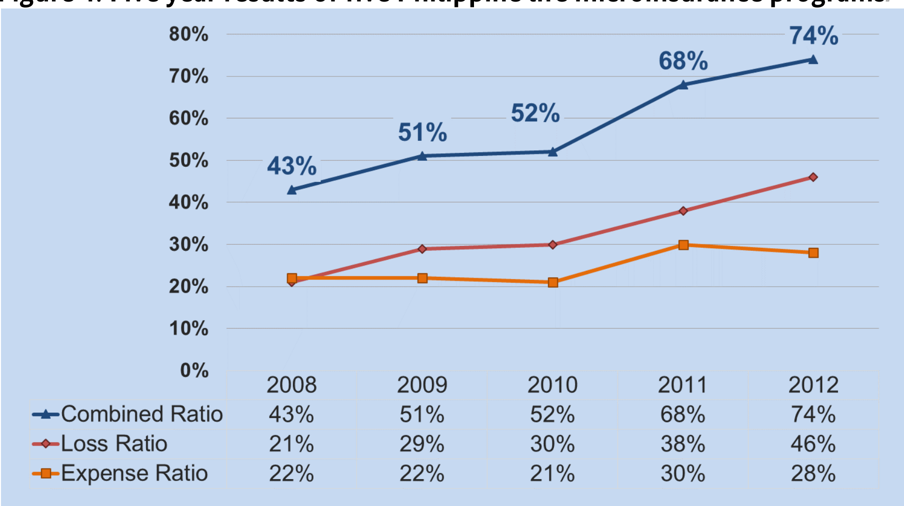
[34] Source: RBAP

Figure 3: Business case of 5 Philippines insurers[35]



On a consolidated basis, these five institutions experienced a 250% growth in premiums from USD 20 to USD 50 million. At the end of this growth, insurers had a combined ratio of 74% and distribution channels had a net surplus from microinsurance sales of about 8%. At the same time, the claims ratio had increased from 21% to 46%, showing increasing value to clients. Although this is only a part of the microinsurance market in the Philippines, the results are very positive and reflect a positive situation for policyholders, insurers, and distributors. ***Figure* 4** shows the dynamic results of operations for these same five life microinsurers.

Figure 4: Five year results of five Philippine life microinsurance programs[36]



Looking at these institutions, the study concluded that the balance of business case and client value was the result of an effective microinsurance environment, leading to significant competition, which led to improved products, pricing, and most importantly, service. Indeed it was reported that potential insureds actually shop for well-serviced MI. The microinsurance legal framework likely helped to provide the effective environment.

[35] MILK World Tour presentation. Eschborn Germany. The MicroInsurance Centre, 2014.
[36] MILK World Tour presentation. Eschborn Germany. The MicroInsurance Centre, 2014.

Intermediaries

The Philippine market has three main types of intermediaries: microinsurance brokers, "general agents", and "institutional MI agents". This distinction, brought about by the Microinsurance Framework, has opened up a variety of means of making microinsurance accessible to low-income consumers.

It was in early 2007 that MicroEnsure, a multinational, microinsurance-only broker, began operations as an intermediary working with its parent's partner MFI, TSKI. MicroEnsure was among the first to take advantage of the Microinsurance Framework and led the market with an out-of-the-box approach that helped exemplify the new paradigm of MI. With up to 1.5 million microinsurance clients, its growth is in many ways a direct result of the policy focus in the Philippines.

The Framework calls for a special microinsurance agent license for individuals. This reduces the training requirements and allows such agents to service only microinsurance products. This increasing number of MI-only agents over the three years of implementation (2012-2014) has moved from 125 to 105 to 170, respectively. Although it was expected that many agents would work to obtain this license, it really has not garnered sufficient response from potential agents. Anecdotally, the researchers were told that those who get these licenses typically use it as a step towards a full agent license. Of course, traditional agents are always able to sell microinsurance; however, unless done through groups, the motivation of a traditional agent to sell microinsurance is limited due to the low commissions.

As for the institutional licenses, rural banks are the main users of this framework (48 at end 2014). However, compared to the total of 566 rural banks (end 2013) this number is rather low.

MFIs, and particularly those linked to MI-MBAs are particularly strong intermediaries given the close relationship between distributor and clients. MI-MBAs were discussed above.

The ability of retail outlets to sell microinsurance, a direct result of the Framework, has proven to aid in dramatic expansion of microinsurance. For example, the products of Malayan Insurance sold through the pawnshop chain, Cebuana Lhuillier, have proven very effective in generating not only access, but actual purchase behavior on the part of the low-income market. Cebuana Lhuillier management notes that they sell 1.5 million policies each month through its network of 1,500 branches across the Philippines.

Finally, rural banks now have, or can get, a license as institutional MI agents. However, they have become a somewhat disappointing distribution channel for microinsurance. This is discussed in the Formalization section.

Outcome

As of end-2014, the IC had licensed 170 MI agents, 48 of which are rural banks (of which 26 were active), and 122 individuals. A decline is noted in the number of individual MI agents (see ***Table 7***). Anecdotally, some of the dropouts (from 125 in 2012 to 105 in 2013) had obtained the MI agent license as a stepping stone to the more formal and comprehensive full agent license. However, the MI agent license does not prepare anyone for the full license. The lack of significance in this number of individual MI agents suggests limited interest in getting an individual license to sell MI products with very low premiums.

The license fee for individual MI agents is just 50% of the fee for ordinary individual agents (who can also sell MI of PHP 500 (USD 11) plus PHP 700 to 1,000 (USD 16 to 23) for the written examination.[37] For individuals this appears to be not enough incentive to sell MI products alone. There is no way to tell how many ordinary agents sell MI in addition to traditional insurance. As with the full agent license, MI agent licenses must be renewed every three years.

Table 7: Intermediaries and MI intermediaries

Number of Licensed Insurance Intermediaries	**2012**	**2013**	**2014**
Ordinary Agents	**36,846**	**32,576**	**55,291**
Life	24,966	21,347	41,762
Non-Life	11,781	11,163	13,359
Microinsurance	**125**	**105**	**170**
Rural banks	26	39	48
Individuals	99	66	122
General Agents	**231**	**198**	**329**
Life	81	63	78
Non-Life	150	135	251
Variable Life Agents	**8,512**	**11,230**	**41,743**

Source: IC and RBAP (for the number of Rural Bank MI Intermediaries in 2013)

[37] IC Circular Letter No. 2014-15 released on 15 May 2014

Meso level

The meso level in the Philippines is represented by the insurance associations and other groups created to facilitate improvements within the general markets. The meso level for insurers is dominated by the life and non-life associations – PIRA and PLIA. These organizations have become increasingly active around microinsurance, as the framework process has been inclusive and pulled them into the effort to develop a strong microinsurance environment.

Risk Management Solutions, Inc. (RIMANSI) was built up as a dedicated service provider for MI-MBAs, working to help MBAs rationalise and legitimise their current activity. They advise MBAs on pricing, solvency, governance, risk, and administration and are developing a set of performance standards for MBAs which will likely be regulated once they are finished. The success of the expansion of the MI-MBAs during the period since the framework was implemented would not have been possible without the role of this technical service provider.

The Rural Bankers Association with its technical assistance provider, the USAID-funded Microenterprise Access to Banking Services project, took on a strong role in advocating for MI agent status for its members, educating the staff of members, and developing a one-stop-shop for members to obtain all the information and assistance required to embark on the agent registration process. Chapter 2.4 will discuss more about the role of rural banks.

Additionally, both insurance associations (PIRA and PLIA) have set up respective microinsurance committees where they regularly discuss issues and plans around microinsurance. These groups were represented on the national working group for microinsurance helping to develop and implement the microinsurance framework and advocacy programs. The associations also provided input into the BBK product (see next section) that is now sold by several insurers in the Philippines.

Products

In general, and compared to other countries with microinsurance, the Philippines has made progress in developing and expanding not only the volume of clients served, but also the array of products to which people have access (***Table 8***).

Table 8: Product information

2006	Dec 2012	Dec. 2013	Dec. 2014
MI products mostly credit life. 8 life (all by MI-MBAs), 2 non-life	119 MI products. 69 life, 50 non-life	127 MI products (under the 2006 and 2010 regulation). 75 life, 52 non-life	162 registered products, 81 life 81 non-life

Source: IC data

In the Philippines, prototype microinsurance policy contracts for life products (group life, term life and life contract with cash value) and non-life products (covering basic peril to life, properties and livelihood) had been developed jointly by associations of insurers and the IC through a Technical Working Group. The prototype has ensured that the policy contract (1 page only and written in Tagalog and simple English) disclosed only key information about the product and the insurer as being required by the IC.

The prototype policy contract, similar to all other microinsurance products approved by the IC based on the Circular, should prominently display the microinsurance logo on the face of the policy contract. This is to enable the clients to immediately recognize that they are buying a microinsurance product.

The BBK product *Buhay Bahay Kabuhayan* (life, house, and livelihood) has been taken up individually by 11 non-life insurers (as of Dec 2014) because the research and development had already been done, and this product was basically pre-approved. The product has had an important impact on the market, first by getting insurers involved in its development (creating "ownership") and by showing the level of importance of microinsurance as seen by government policymakers.

The microinsurance logo has also become an important component of microinsurance expansion. Insurers use this as a means of showing that they have products that meet the requirements of "microinsurance". Such logos are available in other countries, like Thailand; however, they are not promoted among the markets and the logos mean nothing to potential clients. The Philippines has promoted the logo through songs, videos, advertisements, financial literacy roadshows, and other means.[38] This has been an important ingredient in promoting microinsurance. As an example, one of the corporate agents pushed its insurer to have its products registered because the agent saw the importance of having the logo to the market. This is a clear sign of a positive impact of the logo.

In an effort to provide better information to its members, the Rural Bank Association of the Philippines (RBAP) has developed a web site which includes a listing of microinsurance products available in the markets. A copy of this listing is reproduced below as Table 9. Though not fully comprehensive (some insurers refused to participate) it provides a nice overview of the products available at the end of 2012. What this list shows is a market that is expanding in terms of providers (there are few countries with 10 insurers providing microinsurance), but also in terms of covered individuals (most countries predominantly offer products only to the direct client, while in the Philippines most of these insurers are covering a broad array of family members from the principal insured to parents and siblings) and in terms of the array of products that are offered.

[38] The roadshows were conducted by the TWG in 16 cities around the Philippines. The roadshows were jointly supported by GIZ-MIPSS and ADB-JFPR.

Table 9: Sample of MI products (2012)[39]

ID	Insurer	Type of Product	Coverage	Natural Death	Accidental Death / Disability	Accidental Medical Reimbursement	Daily Confinement Benefit / Hospitilization	Additional Benefits
1	Bankers Assurance	Life Insurance	Accident coverage for individual or family plan		Yes	Yes	Yes	Educational assistance; fire/calamity assistance
		Nego-Insurance	Fire coverage					Calamity assistance; Family PA
		Property Insurance	Fire coverage					Calamity assistance; Family PA
2	CARD-MBA	Term Life	Member	Yes	Yes			Motor vehicle, accident, hospitilization, endowment
3	Centennial Guarantee and Assurance Corp	Property, life, livelihood (BBK) Cash Assistance Program	Coverage for fire and accident for insured, insured's assets / properties		Yes			
		Property, Life, Livelihood Plus	Coverage for accident, fire and lightning		Yes	Yes	Yes	Accidental burial expense
4	Country Bankers Life Insurance Corp.	Term Life	Principal Insurance (Marriage, Single, Widow)	Yes	Yes	Yes	Yes	Instant abuloy (burial benefits); Financial assistance due to fire and natural calamities
			Spouse / parents	Yes	Yes	Yes	Yes	
			Children / siblings / grandchildren	Yes	Yes	Yes		
		Credit Life	Unpaid amount of indebtedness of insured up to Pho 300,000	Yes	Yes			
5	Manila Bankers Life, Inc.	Term Life	Principal Insured	Yes	Yes		Yes	Terminal illness, burial benefits, hospital expense benefit
			Spouse	Yes	Yes		Yes	Burial benefits, hospital expense benefit
			Parent/Children	Yes	Yes		Yes	
6	MAPFRE Insular	Kakampi	Coverage for principal insurred for fire and lightning, accidents and unprovoked murder	Yes	Yes			
7	Peoples Bank of CARAGA-MBA	Term life	Member, Dependents	Yes	Yes			
8	Philippine Prudential Life Insurance, Corp.	Term Life	Principal insured	Yes	Yes	Yes		Cash burial benefits
			Spouse/Parents	Yes	Yes	Yes		
			Children/Siblings	Yes	Yes	Yes		
9	Pioneer Life	Term Life	As per client's requirements	As per client's requirements	As per client's requirements	As per client's requirements	As per client's requirements	Total Permanent Disability, Property Assitance and Depositors Program
		Credit Life	Unpaid amount of indebtedness of insured	Yes	Yes			
10	RBT-MBA	Term Life	Member, Spouse, Children	Yes	Yes			Medical allowance

39 RBAP compilation 2012. http://www.microinsurance.rbap.org/insurance-products/find-a-microinsurance-product/

Table 10 provides detailed information about the total insurance industry and the microinsurance subsector. This provides good insight on the growth of the commercial market during the period 2012 through 2014, reflecting about 13.14% growth in premiums led by life at 14.85%, and non-life at 6.77%. There has been 4.31% growth in life policies and 5.50% in the number of non-life policies during the same period. The microinsurance numbers are only reliably available beginning in 2012, and thus this understanding of growth is not possible without additional information on MI clients, premiums and claims.

Table 10: Insurance Business of Commercial Companies in the Philippines

Life	**2012**	**Ratios (MI/total)**	**2013**	**Ratios (MI/total)**	**2014**	**Ratios (MI/total)**
Number of Policies*	3,770,915		3,839,262		4,104,223	
Microinsurance	1,256	0.03%	1,777	0.05%	7,117	0.17%
Number of insured lives*	20,082,674		18,482,744		22,783,372	
Microinsurance	4,226,460	21.05%	4,700,434	25.43%	7,584,573	33.29%
Premium income (in million pesos)*	120,299		171,154		158,727	
microinsurance (million pesos)	1,119.50	0.93%	1,285.50	0.75%	1,417.62	0.89%
Claims payable (million pesos)*	50,034		54,764		44,822	
microinsurance (million pesos)	506.00	1.01%	272.90	0.50%	711.15	1.59%
Assets (in million pesos)	621,929		729,952		855,282	
Claims ratios- Total	41.6%		32.0%		28.2%	
Microinsurance	45.2%		21.2%		50.2%	
Non-Life	**2012**	**Ratios (MI/total)**	**2013**	**Ratios (MI/total)**	**2014**	**Ratios (MI/total)**
Number of Policies*	9,862,270		9,626,528		10,984,849	
Microinsurance	35,841	0.36%	16,523	0.17%	29,981	0.27%
Number of COCs*	13,867,176		12,967,736		16,028,755	
Microinsurance	8,077,464	58.25%	7,879,672	60.76%	9,896,681	61.74%
Net Premiums Written (million pesos)	27,993		29,136		32,059	
microinsurance (million pesos)	228	0.81%	236	0.81%	245	0.77%
Claims incurred (million pesos)*	11,265		14,232		160,921	
microinsurance (million pesos)	42	0.37%	78	0.55%	384	0.24%
Assets (in million pesos)	128,446		159,063		160,921	
Claims ratios- Total	40.2%		48.8%		501.9%	
Microinsurance	18.3%		33.1%		156.4%	

Source: IC Data

Reviewing the comparative numbers between MI and the total industry suggests a confirmation of the conclusion that MI was a substantial contributor to the growth in numbers of insured of the industry, but that it has had a limited impact on premiums. Although clients represent 62% of total insurance coverage, premiums are less than 2% of the total premiums for the industry.

The small relative number of policies in microinsurance versus the number of policyholders also shows a significant percentage of group-based policies, which also may be a sign of significant MI activity.

This movement in MI based on the 2014 MI data and the industry growth data from 2012 to 2014 suggests important levels of MI activity in the market during the period in which the MI legal framework was implemented. However, it is difficult to assign causality for the activities. That said, it is reasonably clear that the regulatory framework had a positive impact on the MI activities during this period.

2.2.3 Lessons in private sector participation

The Philippines is a vibrant market for microinsurance and is a great example of microinsurance growth and expansion for other countries in the region. A number of transferable lessons have been learned in the Philippines around product development, insurers and intermediaries.

Product development

The well-developed supply of microinsurance - at least within the most commonly-offered products - has led to competition between insurers, and delivery channels are able to pressure insurers to offer more favorable products and more flexible and responsive service and to switch insurance providers when they are dissatisfied.

The development of product prototypes with insurers helped to generate their buy-in and showed, by example, how microinsurance is envisaged by government and the insurers. Also, by including insurers in the process, both insurers and government learned more about good microinsurance and this has spread to other products and processes.

Microinsurance growth and expansion takes time with new products being developed, tested, and then ramping up to serve masses. Clear guidance from the framework and circulars has helped to clarify for insurers what MI is and how products should be designed.

MFIs required covers helped to create an insurance culture. Given a fast-growing, massive microfinance industry, insurance products required by a third party (such as MFIs and banks selling credit life covers to borrowers and enrolling their clients in their institutionally-linked MI-MBA), provided dramatic access to large numbers of people, and in the Philippines has helped to create an insurance culture where one was absent previously.

Although there is a broader range of MI products in the Philippines than in most other countries, the products offered are still predominantly basic life and accident. The value of some of these products is limited to continued complexity, misalignment with client needs, and in some cases, poor service. Typically, basic life products and accident products are rather profitable (as was seen in the example of the five Philippine life microinsurers). This is likely why the market focuses in these areas. However, the Philippines does have some more complex products such as index covers for calamities.

Insurers

Even while the number of insurers has declined in the Philippines, the number of insurers – commercial insurers, cooperatives and MI-MBAs - providing microinsurance has increased considerably. This has many reasons: a demonstration effect, market expansion, competition, expansion of microfinance (distribution channel expansion), access to new distributors (a benefit of the regulations), and a generally favorable microinsurance environment for insurers (also partly related to the regulations). The recent increase by the Insurance Code 2013 in the limits of premium payment and benefits is expected to spur the engagement of insurers in microinsurance further.

Even in a good microinsurance policy environment, not all insurers will shift some operations to microinsurance. The predominant motivation of insurers – after the first round of those seeking a venue for corporate social responsibility – is the potential for profitability. This is more powerful than other motivations.

Insurers can make money in microinsurance in the Philippines, while still providing good products for clients and paying commissions that lead to profits for institutional agents. Potential profitability is a prerequisite. The improved policy environment facilitates that confidence, and improves the potential for profitability.

A broader range of insurers may be planning to offer microinsurance, but for many reasons just have not yet started; a few also have given up. Several insurers have registered to sell microinsurance products but have not sold any. This is likely because they plan for microinsurance activity and wanted to make sure the legal issues were addressed so they would be ready when they want to start. Some also have registered a product and ceased the scheme after facing operational challenges, but the product remains registered.

One of the most important actions of the IC in relation to microinsurance have been those related to creating the dedicated form of MI-MBAs and defining a microinsurance business line for other insurers. The mutual type of underwriter had a demonstration effect in the early years, in times when commercial insures were hardly interested in microinsurance. Cooperative insurers were always in that segment.

Intermediaries

Another important action of the IC in relation to microinsurance was the expansion of the distribution channel types.

The circulars requiring rural banks to register as intermediaries had an important impact in bringing the largest rural banks to a regulated state. However, many have chosen not to formalize their status.

Prior to 2010, rural banks are not allowed by the BSP to sell insurance products within the bank premises nor even get a license to sell from the IC. Their only option then was to purchase group insurance policy cover for their clients as in the case of most rural banks that had the arrangement with Country Bankers. The reason is reputational risk. The BSP's move to open up the sale of MI products within bank premises is their contribution to the promotion of microinsurance and financial inclusion. With the MI license, they can now either still get group insurance and/or sell directly to their individual constituents, the latter providing additional income to the rural banks while on the client level, options to buy MI products suited to their needs, not bounded by the limitations of a group policy.

In general, the Philippines is far ahead of most countries in terms of its microinsurance activities. Clearly there is some relationship between this advanced state and the support that has been provided by the policy support and regulatory framework for microinsurance. These lessons should be helpful to other jurisdictions as they consider their options in terms of microinsurance expansion.

2.2.4 Challenges in private sector participation

Challenges remain in the Philippines to continue expansion of microinsurance, relating to providers, products, and intermediaries.

Providers

Expansion: Not all insurers should provide MI, and thus although there may be incentive for policymakers to force insurers into the market (as in India) this is not likely to be successful. Expansion does seem to be coming with time. Insurers see the benefits to the first movers and then some become more interested when they see potential success. Continued promotion of MI by policymakers will be helpful, as will provision of accurate key performance indicator (KPI) information through which insurers will be better able to gain an understanding of benchmarks and potential for success.

Insurer capacity: Some insurers seem to rush to provide MI without knowing the client or the business, providing weak products and poor services that diminish the confidence of the market and may ultimately result in the closure of the scheme. Training programs through the insurance training institute designed to train on MI-specific issues could help.

Commissions: In other countries - Colombia, Brazil and Nigeria, for example – distribution channels with very large market access have been charging very high commissions for microinsurance distribution (45-70% of premiums). As the Philippines moves to greater expansion through ever more innovative distribution, it will be important to manage commissions so that products remain affordable and continue to provide value to clients.

Products

Product variety: Although variety of products is beginning to expand, it will be important to continue this evolution into the future as there are still many needs of low-income people that might be addressed through microinsurance. Promoting greater variety with client value will be the next level of policy making promotion.

Non-life products: Developing more non-life products (currently at only 20% of life premiums) will be important to keep the interest of non-life insurers and provide for more of the needs of the low-income market. Several agriculture related products are beginning, and other property products seem to be emerging. Helping potential clients link need to demand for these products will be an important piece of the market education efforts.

Taxation: Taxation of MI products is a problem in the Philippines. It creates an uneven playing field between MI-MBAs and commercial insurers, and it takes a bite out of the value that clients receive. An effort with the Fiscal Department to address these imbalances would benefit the provision of more and better products.

Intermediaries

Intermediary regulation (1): Much has been done to improve and expand the ability of insurers to access a range of agent types. However, some agencies continue to act outside those rules. Improving coordination between government agencies might help to address this issue.

Intermediary regulation (2): As with other key data points, there is no clarity on the number of individual, ordinary, MI, or other types of agents. This hinders the ability to effectively oversee the market.

Registration process: The process of registering as an institutional agent, as with the rural banks, is unnecessarily onerous and could be reduced while still maintaining appropriate control. This will facilitate the inclusion of additional intermediaries.

Future channels: The framework reflects current distribution and insurer types. However, in many jurisdictions policymakers are faced with internet, mobile, and other innovative insurer and distribution types. Policymakers should be working to make sure that new models are not stifled because regulations need to catch up with the opportunities in the market.

2.3 Strategic Objective 2 - Regulatory Framework

2.3.1 Rationale and stakeholders

The "predecessor" regulation of 2006, which was issued before the Regulatory Framework, provided for a definition and a special type of provider: The Regulatory Framework of 2010, which we use here as the basis for assessment, must be seen as closely linked to a "predecessor" regulation which came to be an important strategic move ahead of the comprehensive Regulatory Framework. Insurance Memorandum Circular (IMC) No. 9-2006 paved the way for two important developments: defining microinsurance, and creating a new type of provider, the Microinsurance Mutual Benefit Associations (MI-MBAs).

Regulation is a key area of the National Strategy and supports the other four strategies: Strategy 2, the "establishment of an appropriate policy and regulatory environment for the safe and sound provision of microinsurance by the private sector" is instrumental to Key Strategy 1, Private sector participation, to Key Strategy 3, Formalization, and it relies on Key Strategies 4 and 5, as shown in Figure 5 below. The contributions of the Regulatory Framework are visualized by the blue arrows.

Figure 5: Overview of Key Strategies and Strategic Objective 2

<table>
<tr><th>Key Strategies</th><th colspan="2">Strategic Objectives</th></tr>
<tr><td>1 - Private sector participation</td><td></td><td rowspan="4">5 - Consumer Protection - Rights and privileges of the insured poor are protected</td></tr>
<tr><td>2 - Policy and regulation (including supervision)</td><td>Establishment of an appropriate policy and regulatory environment for the safe and sound provision of microinsurance by the private sector</td></tr>
<tr><td>3 - Formalization</td><td></td></tr>
<tr><td>4 - Financial literacy</td><td></td></tr>
</table>

The main drivers, the Department of Finance-National Credit Council and Insurance Commission, have been working in conjunction with other authorities: The Regulatory Framework for microinsurance in the Philippines is the domain of the IC. However, several other authorities also play a role in regulating insurance that is informally provided as well as the distribution of microinsurance. These other authorities are the Bangko Sentral ng Pilipinas in charge of banks and microfinance institutions, the CDA regulating cooperatives, and the SEC regulating the securities industry. Other national agencies such as the National Anti-Poverty Commission and the Philippine Information Agency were also involved.

Technical Working Groups (TWGs) as the dialogue, as well as concept and tool development platform which involved the public and private sector: Since 2009, the TWGs provided venues for public-private sector participation in the discussion of policy and regulatory issues and, most importantly, in the formulation of various policy and regulatory measures addressing the issues. Apart from the regular and continuous dialogue, the TWGs developed concrete tools such as the microinsurance advocacy training modules, standard products and the performance monitoring tools.

Strong and sustained leadership of the DOF-National Credit Council and IC, with support from development partners[40] was provided to advance these processes. The public authorities were described above. The private sector includes the associations of insurance providers (commercial life and non-life companies, cooperative insurance societies and mutual benefit associations), financial and other institutions engaged in the provision of financial services to the low-income sector, and associations of agents, brokers, rural banks and MFIs. Generally, members of the various TWGs served as advocates for reforms in their own organizations.[41]

2.3.2 Key elements of the Regulatory Framework and outcomes

The Regulatory Framework consists of the **six key elements** regulated by a variety of legal instruments (i.e. circulars of the IC, circulars of the BSP, joint circulars, the insurance law), being implemented as a consequence (e.g. the supervisory system). The six key elements are (for the details on the legal provisions see Appendix 5):

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[40] Technical and financial support was provided by German International Cooperation-Microinsurance Innovations Program for Social Security (GIZ-MIPSS) and the Asian Development Bank-Japan Fund for Poverty Reduction (ADB JFPR). Developing Microinsurance Project (MIP) provided expert inputs from 2009 onwards. Technical assistance focused on inputs for developing the appropriate policy and regulatory environment for increased private sector participation in providing microinsurance services, building the capacity of regulators in supervising microinsurance providers, developing prototype products, and increasing awareness on microinsurance among key stakeholders.

[41] Portula D. and Vergara R., Case Study Philippines (RFPI Asia 2013)

(1) the **microinsurance definition**
(2) the formation of a **new tier of providers** - the MI-MBA - and also the **engagement of commercial insurers**, as well as a **reduced capital requirement** for those having 50 % of their portfolio in microinsurance
(3) **product-**related rules such as standard contract, bundling, the use of a logo, or re-approval
(4) **agent**-related rules such as licensing, training, and the role which banks can play
(5) an approach for **alternative dispute resolution in microinsurance**
(6) the **supervisory system** for microinsurance

The following section presents these six key elements in more detail and also shows major outcomes.

(1) Defining Microinsurance

The first definition was introduced in 2006.[42] The definition of microinsurance builds on qualitative criteria and quantitative limits. **Qualitative** criteria are related to the client type, contract features and product details, namely:

- 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.
- **Contract provisions** that are to be easily understood by the insured, such as simple documentation requirements, and a manner and frequency of premium collections that coincide with the cash-flow of, or are otherwise not onerous for, the insured.
- Requires microinsurance **policies** to clearly identify the face amount, benefits, and terms of the insurance coverage.
- Defines rules on **product bundling**.
- Evaluation of **performance of providers based on Performance Standards**
- Requires the use of the **Microinsurance logo** in the policy contracts.

The first **quantitative** [43] definition of 2006 was changed in 2010 with IMC 1-2010. The daily premium cap was lowered and the maximum cover increased slightly. In July 2013, with the new insurance law, these amounts increased significantly, with a maximum cover of almost USD 11,000. This definition is now valid for new products that are being registered (see ***Table 11***).

Table 11: Quantitative definition of a microinsurance policy over time

Regulation	Salary basis	Percentage	Premium Cap*	Times daily salary[44]	Maximum cover
IMC 9-2006	PHP 350	10 %	PHP 35 (USD 0.70)	500	PHP 175,000 (USD 3,412.50)
IMC 1-2010	PHP 404	5 %	PHP 20 (USD 0.44)	500	PHP 202,000 (USD 4,484.40)
Insurance Law 2013	PHP 466	7.5 %	PHP 35 (USD 0.81)	1,000	PHP 466,000 (USD 10,764.60)

Source: Circulars, Insurance Law 2013

[42] Even though IMC 9-2006 was clearly addressing all insurers in the title, the DOF-NCC raised the concern that the industry perceived the definition to be valid for MI-MBAs only. In any case, commercial insurers did register several products under that circular. However, there is proof that the Circular was valid for all insurers, and accepted as such: Between 2006 and 2007, the IC registered 8 life products of 6 commercial insurers and of one cooperative insurer. In 2008, the IC also registered two non-life products of a commercial insurer (weather index products).
[43] The IAIS Application Paper on Regulation and Supervision of Inclusive Insurance Markets (2012) recommends that "quantitative elements of definitions should be set at the highest possible level to ensure the defined product is as inclusive as possible".
[44] http://www.nwpc.dole.gov.ph/pages/ncr/cmwr_table.html

Outcomes: A major outcome of the creation of the definition of **microinsurance was the clarification of** which products are microinsurance, and which are not. It also clarified which elements need to be in place within a given benchmark and required simplicity regarding the product requirements. The separate regulatory delineation set out a framework for this business line in terms of products, contract, and providers allowed. The regulatory delineation also allows identification of those policies that fall under the category microinsurance, with certain consequences such as separate reporting, use of MI logo, etc., as laid out in the following elements.

(2) Underwriters and prudential approach

A new tier of Microinsurance Mutual Benefit Associations

Prior to Circular 9-2006 and to the Regulatory Framework, many MFIs and cooperatives had self-insurance schemes which they were operating illegally. The regulations in 2006 were greatly facilitated by the existence of a chapter in the Insurance Code that provided for the establishment of MBAs as common bond associations. This provision has existed since 1978 when the old Insurance Code was promulgated. The MBA chapter of the Insurance Code provides for a lesser compliance regime than that applicable to commercial insurers. This compliance regime has been substantially fleshed out over the past two years by circulars from the IC, providing for minimum membership of5,000 and a minimum capital of PHP 5 million, to be increased by 5% of premiums per annum until a target is reached, compared with the minimum capital for commercial insurers of in excess of PHP 1 billion and various corporate governance requirements[45] The regulation which created the category of the Microinsurance Mutual Benefit Association (IMC 9-2006) was motivated by two facts: the precedent of CARD Mutual Benefit Association that had been in existence since 2001 and the fact that its provision of microinsurance since its establishment made it into a role model for other MI-MBAs.

Later, in 2010, with the Regulatory Framework, commercial insurers, under their active license, were motivated to also sell microinsurance as a line of business. They were allowed to do this even before, under the regulation 9-2006, but were reluctant because many perceived the circular as only valid for MI-MBAs.

[45] Access to Insurance Initiative, Almario et al (2008)

Insurers and brokers with 50% of their portfolio in MI

In 2010, the Regulatory Framework announced a different treatment for those insurers and brokers who provide 50% of their portfolio in microinsurance. Prudential regulation for microinsurance has two main legs. Firstly, in 2006, a new tier of institutions, the MI-MBAs, was created that were described above; more details are given in chapter 2.4.2.

Secondly, as set out in the Regulatory Framework, Department Order 15-2012.[46] provides for 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.

In the light of the continuously increasing capital requirements due to the ASEAN integration, several insurers expressed that they might focus on microinsurance in future and rely on this provision, complying only with 50% of the capital requirement once they have 50% of their portfolios in microinsurance. Smaller industry players might not be able to meet the increasing capital requirements and may have the choice between a merger and the microinsurance market. The current full capital requirement is PHP 250,000,000 (USD 5.3 million). Certain providers may be able to gain significant market share in the low-income segment.

Outcomes: As of Dec. 2012, the 18 MI-MBAs served 2.5 million policyholders, or a total of 7.6 million people, including dependents. As of Dec 2014, 22 MI-MBAS were licensed serving 3.1 million members or 13.6 million people. As MI-MBAs are confined to life business, one MI-MBA, CARD, has even set up a joint venture in the non-life space. Like in the previous years, the MI-MBAs in 2014 consistently dominated the microinsurance market, insuring over 44 % of the total MI coverage and contributing 56% of the MI total premiums.

The number of commercial providers offering microinsurance in 2014 is 18 life insurers and 24 non-life insurers, and one composite insurer (see table 6), which makes a total **of 42 commercial companies including cooperative insurers**.

The broker MicroEnsure falls under the 50% capital rule in MI provision. At the moment, no insurer benefits from this rule as commercial insurer still have adequate capital to comply with the minimum capital requirements. However, with the up-coming increases, this incentive may be an option for some insuerer.[47]

[46] Department of Finance

[47] The newly set-up non-life insurers Pioneer-CARD MBA will not make use of the differential treatment as they informed they have the full capital in place.

(3) Products

The product-related rules issued refer to the needs of the target market that must be considered for MI products. Importantly, they also define rules for the policy, such as standard contract, bundling, the use of a logo, product re-approval, documents required and the payments.

Outcome: As of 31st December 2012, 119 microinsurance products (69 life, 50 non-life) were registered at the IC under the two regulations of 2006 and 2010. The number grew to 162 products (81 life and 81 non-life) by end of 2014.

(4) Agents

Agent-related rules include the licensing and training of intermediaries, and the role which banks can play. Three circulars from IC and two from the BSP were introduced between 2010 and 2011 which regulate the nature of a microinsurance agent and the training of agents.

Outcome:

- MI Agents:
    - 2012: 125 (26 RBs, 96 individuals)
    - 2013: 105 (39 RBs, 66 individuals)
    - 2014: 170 (48 RBs, 122 individuals)
- IC to approve training modules before the training provider is accredited
- Insurers are liable that the intermediaries they use are licensed and trained
- Signage of MI agent is visible on the premises

(5) Alternate Dispute Resolution Mechanism in Microinsurance

In July 2013, four sets of circulars introduced the ADReM, an approach that has been developed and discussed since 2012 in the TWG. The circulars set out the qualifications of mediators-conciliators, and their training, responsibilities and code of conduct. They also describe the principles and procedures of claims-related dispute resolution mechanisms which should be least-cost, accessible, practical, effective and timely. Last but not least, the circulars emphasize consumer protection as well as the protection of the insurance industry against illegitimate claims. To initiate the implementation of the circulars, public seminars were completed in seven key cities across the country in the first quarter of 2014 to inform stakeholders on the implementation of ADReM.

Outcome: The procedures for mediation were defined and trainings for mediators are being implemented. The system has yet to demonstrate how it works and which results it can generate in terms of consumer awareness, effective recourse options and ultimately, client value.

(6) The supervisory system for microinsurance

The supervisory system to monitor microinsurance relies on two approaches. Firstly, on several technical components that were integrated in the supervisory process, mainly product approval, (off-site) performance monitoring and on-site supervision. Secondly, other important and cross-cutting aspects are the Excel-based system used to track microinsurance data, staff collaboration along the various departments involved, and staff training on microinsurance.

The IC implements product approval prior to the marketing of products for all life, non-life and bundled products. Approval is implemented in the following two different divisions, depending on the type of insurer:

- Life products are approved by the Actuarial Division, and
- Non-life products are dealt with in the Regulation, Enforcement and Prosecution Division

Off-site supervision / reporting along Performance Standards: The IC was the first ever insurance supervisor globally who introduced performance standards for microinsurance providers. The bases for this work were the Key Performance Indicators of the Microinsurance Network, which were adjusted for local purposes. The reporting formats, intended to be integrated into the annual reporting of insurers, were developed in a participatory process by the Technical Working Group. The standards include an Excel template setting out specific performance indicator ratios to be tracked and how they are to be calculated, the weights assigned to each and the aggregate scoring derived from it. To establish the system, the IC received technical assistance from the FIRST Initiative.[48]

Box 7: Performance Standards and Indicators in the Philippines

Microinsurance standards and indicators are important for insurers to clearly understand their microinsurance business and for supervisors to quickly see where there might be issues within the microinsurers' operations. However, all indicators require three levels of knowledge and understanding. One must:

- Collect: Know what data to collect and how to arrange it in a meaningful way.
- Interpret: Understand what the indicators – raw numbers and ratios – mean.
- Take action: Maintain targets and know what to do when the reality misses the targets.

In the Philippines, with the SEGURO Performance Standards (CL 5-2011) there is a well-constructed set of indicators with explanations and calculations. However, it is clear from the results provided for 2011 and 2012, that most insurers do not clearly understand what data is needed and how it must be presented to be meaningful. It is also clear that the IC is not evaluating or assessing this data. Thus, it appears that in the Philippines, although the setting of indicators was a laudable effort, it is clear that none of the three key elements of data are implemented.

The performance standards and indicators could be a key tool for the IC if they were completed correctly and insurers and the IC could use them effectively. This is an important resource for the IC and the insurers which is not being leveraged. The indicators, and in some cases data, are discussed below.

Sources: authors

Back in 2010, a TWG set-up for this process developed the reporting formats in a series of two-day meetings. The reporting system of all insurers was adjusted to ensure insurers that microinsurance is being reported separately and based on the agreed standards.

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48 The FIRST Initiative (at World Bank) supports low- and middle-income countries in their efforts to strengthen financial sectors and ultimately achieve greater economic development and poverty alleviation. FIRST offers small scale and short-term grants for Technical Assistance (TA) projects that contribute to more stable, more efficient and more inclusive financial systems.

Regarding the Performance Standards (PS) reporting system along the SEGURO[49] indicators, the data reported and ratios calculated are not always clear or complete. Some insurers complain that the reporting along the performance standards is a burden. The IC divisions dealing with the data – collecting it and analyzing it – do struggle with the manual way of reporting, and the incompleteness of data reported. Data compilations are not regularly done.

Table 12: Reporting on SEGURO Standards

Type of insurer	Loss Ratio, Microinsurance			Growth in number of insurers, 2014
Year	2012	2013	2014	
Life	45.2	21.2	50.2	7 out of 9 insurers reporting growth trend, ranges 12%-90%. Decline rate, 13%-85%.
Non-life	18.3	33.1	156.4	4 out of 12 reporting growth trend, ranges 18%-271%. 3 are new entrants in 2014 and 1 stopped MI business. 5 reported decline ranging 49%-83%.
MI-MBA	25.7	24.1	27.5	8 of 19 reporting growth, ranges 14%-52%. Decline rate ranges 2%-98%.

On-site supervision during the supervisory process: The IC supervises underwriters and microinsurance agents. The Bangko Sentral ng Pilipinas supervises the rural and thrift banks, some of which are MI agents. According to DOF-NCC, certain adjustments were made in the supervisory processes and manuals of the BSP, however, as this gap has been mentioned by some industry representatives, bank examiners still need to be more familiar with insurance selling operations and its distinction with distribution. .

On-site supervision by the IC at the general level is in the process of being improved under the new administrative structure. Supervisory visits will be more regular and frequent. MI supervision will also benefit from this change.

MI staff and staff training within IC structure: The priority the IC gave to microinsurance has been increasing over time considerably. In the first years of microinsurance, MI was dealt with by the "normal" staff without much additional training. The former Deputy Commissioner of IC has been supporting MI. For many years, learning-by-doing, the hands-on support coming out of the two donor projects (ADB/JFPR and BMZ/GIZ), the working sessions of the TWG, some limited exposure at international events, and some exposure to national MI events were the main source of on-the job training for IC staff. Most notable, the TWGs are said to be the most fertile way of acquiring learning and sharing experience, i.e. an intensive, continuous and effective way of IC staff training on the job. In addition, in 2011, IC set up an interdisciplinary "MI Technical Committee" to deal with microinsurance, comprised of staff from nine IC offices or divisions (see also Annex 8).

In early 2014, the IC also took the decision to set up a new and **dedicated Microinsurance Division staffed with 6 – 8 persons.** The MI division, which is supervised directly under the office of the Commissioner, is now functional with initial 4 staff. The MI Division coordinates MI functions and projects across different divisions of the Commission. Prior to this set up, one of the four new **Deputy Commissioners was in charge of microinsurance.** He has been acting as a focal point for microinsurance, both within the IC and vis-à-vis the industry.

2.3.3 Lessons in regulation and supervision

The regulatory framework gave clarity and certainty to providers. The six regulatory elements above described were carefully designed in a participatory process, and implemented in combination, allowing that they are mutually reinforcing and create a measurable and significant impact.

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49 SEGURO means **S**olvency and Stability; **E**fficiency; **G**overnance; **U**nderstanding of the product by the client; **R**isk Based Capital, and **O**utreach as defined by Annex 1 of the IC Circular Letter 5-2011 on Performance Standards for Microinsurance.

The quantitative part of the microinsurance definition increased significantly over time which allows for growth of business volumes. Since July 2013, the cap of the policy amount is 2 times of what it was initially when introduced in 2006. This also reflects an international trend common in other jurisdictions of disbanding quantitative definitions that might set the bar too low; and the new requirements are in line with the IAIS recommendation to set quantitative limits high as mentioned earlier.[50] What the implications on the industry side will be in the future has yet to be seen. In any case, more production and better sustainability of schemes can be expected.

The supervisory system of IC was adjusted over time. The major change of Performance Standards was introduced when microinsurance took off massively in 2011. In the first years of MI, IC managed the MI business line and the new type of providers (MI-MBAs) within the same institutional structure and with the same staff and procedures. Delineation was introduced step-wise at a later stage.

> "The IC needs to treat MI differently in the supervisory reviews than they do with traditional insurance activities. Auditing of MI products has not been shifted."
> *Insurance Association*

The IC recognized that a broader change in the IC structure to have a dedicated MI Division will allow a coordinated approach across the various departments dealing with MI issues in the supervisory process, as well as an internal and a public focal point.

Massive support from public and private stakeholders – including development partners - and a continuous multi-stakeholder process supported strategy development and later, implementation. For several years, mainly during 2009 and 2014, there was an active dialogue and cooperation with and between authorities. The DOF-NCC and IC were able to mobilize significant donor funding from three sources (ADB/JFPR, GIZ/BMZ, FIRST Initiative/WB[51]) in a continued way over the past years (2008 – today). Complementary support came from a variety of other development partners, such as USAID, which supported rural banks, and Canadian Aid, which helped RIMANSI for some years.

2.3.4 Challenges in regulation and supervision

(1) Sector Policy: An updated policy proposition will allow for defining the milestones for the way forward in regulation and supervision. The Philippine Development Plan (2011-2016) aims at a "regionally responsive, development-oriented and inclusive financial system which provides for the evolving needs of its diverse public" and a financial system in which "everyone has access to all types of financial services, including insurance services." The plan includes financial sector areas that can spur microinsurance development, such as the use of alternative products, the delivery of financial services in underserved and unserved areas, and the use of agent banking and other non-bank financial institutions as delivery channels. This generic policy proposition is not yet broken down into "manageable" areas towards a precise agenda for an inclusive insurance market until 2016 and beyond. It may be worth resuming the private-public momentum of some years ago, when, in the peak-years of the Microinsurance Framework between 2009 and 2011, there was a vibrant sector dialogue, and coordination and collaboration were maintained, considerably contributing to the success of microinsurance.[52]

> "Before the Regulatory Framework, insurers were not aware that they can reach out to the poor."
> *Industry Association*

[50] IAIS Application Paper on Regulation and Supervision of Inclusive Insurance Markets (2012)
[51] ADB http://www.adb.org/projects/41602-022/main; RFIP http://inclusiveinsuranceasia.com/; FIRST Initiative http://www.firstinitiative.org/
[52] Not included n the scope of RIA but Philippines has already issued a 3rd regime of MI Regulation (called Enhanced Microinsurance Regulatory Framework). IC has issued a circular letter (CL 2015-54) in October 2015 adopting the Enhance Framework which mainly provide broader MI functions to broker and agents, and clearer guidelines on reinsurance, taking lessons from the Haiyan experience..

(2) IC staff training in MI: Training of the staff of the IC would benefit from a comprehensive approach and systematic planning and implementation, based on a thorough needs assessment. Training – in various forms, for all staff in touch with MI, and about a variety of topics - will be a central element for the IC in facing the challenges of the growing microinsurance market with focus on inclusion.

(3) SEGURO Performance Standards: The regulation and the supervisory system related to the PS is yet to be fully implemented and enforced. The topics are better compliant with reporting requirements, quality of data collected, data assimilation in the IC, analysis of data and action to be taken based on the data or data gap. The PS system bears important opportunities for improving sector performance and taking early and preventive action. An overhaul of the current standards and reporting system to correct any initial flaws may also be necessary.

(4) Leadership role of the IC: the IC can intensify its leadership role to further support MI in areas such as data, trends, sector risks, innovative distribution, client value, emerging risks and other policy agendas that do rely on insurance. As observed in other countries, the sector can be expected to dynamically change in the future, for example in terms of distribution networks and platforms. Also, other development policies may push insurance, such as climate change, natural disasters, or agriculture[53] and food security. For example, in terms of pilot schemes in mobile insurance, the termination of such a scheme needs to be considered in advance to avoid regulatory backlash and loss of trust, as observed in some other countries.

(5) A revival of coordination with the various other authorities can help to identify any current bottlenecks and may benefit from a more forward-looking approach anticipating upcoming challenges. Areas to be assessed include the training of supervisors and the supervisory approach of the BSP; or coordination with other authorities such as the telecommunication regulator or in agriculture to avoid any counterproductive approaches. Some remaining challenges and the changing landscape of microinsurance in the Philippines require the revitalization of old partnerships between the authorities and perhaps the creation of new ones, e.g. with those that license and supervise non-financial channels.

[53] The Philippines has recently adopted in October 2015 an Agriculture Microinsurance (MicroAgri) Framework through IC circular letter CL 2015-53. MicroAgri provides the guidelines in the provision of parametric and indemnity-based microinsurance in the agriculture value chain.

2.4 Strategic Objective 3 - Formalization

2.4.1 Rationale

Strategic area 3 on Formalization intended the mainstreaming of informal schemes that were technically insurance or similar to insurance. The overarching objective was buiding trust on formal insurance particularly in the rural areas where innovative products are more needed. The expansion of formal distribution channels was a consequence of that policy and, in principle, has an important positive impact on the private sector insurers, as new distribution channels theoretically open the market to substantially more people (6 million new potential clients in the case of the rural banks). Formalization also has an important impact on consumer protection. Building trust requires that new channels will serve as both educator and sales representative. Consumer protection must be considered in terms of formalization, but must not hinder the potential for legitimate microinsurance distribution. Having more formal MI entities will increase the burden on the supervisory function.

Figure 6: Overview of Key Strategies and Strategic Objective 3

Strategic Topic	Strategic Objectives	
1 - Private sector participation		**5 - Consumer Protection** - Rights and privileges of the insured poor are protected
2 - Policy and regulation (including supervision)		
3 – Formalization	**Mainstreaming of existing informal insurance, insurance like, and other similar activities/schemes**	
4 - Financial literacy		

This area of the National Strategy was a reaction to the significant magnitude of informal insurance activity in the Philippines. The IC gives various options for formalization, such as:

- Partnerships with formal insurers in the form of a group policy
- Become an intermediary as an agent
- Become an MI-MBA
- Become a dedicated MI broker with a lower capital requirement
- Become a licensed commercial insurer or an insurance cooperative

2.4.2 Stakeholders, activities and outcome

Thus far formalization has been focused on two areas. The first came on 22 May 2001 when the IC licensed CARD MBA as an insuring MBA, though the main circular – 9-2006 – was the one which really started the massive expansion. The second key area was the policies around formalizing other distribution channels including NGO's, Coops, and rural banks, as agents. The registration of a broad array of distribution entities was guided primarily by the joint IC CDA SEC memo circular 1 of 2010 which clearly outlined government policy towards informal insurance activities. It was this circular that outlined the appropriate options for formalization of the various entities.

MBA Insurers

In the Philippines MBAs have been licensed since 1978 to take insurance risk and offer formal (life) insurance products to their members. The Insurance Code of 1974 (Section 262) codified through Presidential decree 1460 of 1978 included a provision for mutual benefit associations to provide insurance.

The 22 May 2001 licensing of CARD MBA as an insurer, regulated under the IC, opened the market to other NGOs and microfinance banks to create similar structures. At the time, as now, by far the largest distribution channels in the Philippines were the MFIs. The impact of the expansion of mandatory / automatic microinsurance to millions of low-income Filipinos created a foundation for further growth through insurance demonstration based on good service.

The IC formalized the role of the MBAs in microinsurance in 2006 with IMC C.No.9 - Microinsurance Regulation and Declaration of Policy Objectives which provided a regulatory structure around the MBAs insurance activities. By this time CARD already had a membership of 250,000 covered lives. The circular proved a tremendously important move which in many ways facilitated the growth and expansion of microinsurance that we see today.[54]

The role of CARD MBA itself cannot be understated. Its push to provide an array of products guided by its client / members as well as its unrelenting efforts to provide fast claims payments, has clearly set the bar for the whole of microinsurance in the Philippines. CARD's 1, 3, 5[55] target has set the claims standard to which other insurers strive to respond in what has become a market that competes on service and not so much on price.[56] The example set by CARD and its efforts to replicate MBAs in the Philippines, including its leading role in organizing RIMANSI, created a strong foundation for microinsurance to expand.

The predominance of MFIs and their rapid and significant growth in the Philippine financial landscape helped push microinsurance in response to both client demand and the search for competitive advantages by MFIs. The ability of MFIs to create MBAs, requiring their credit and savings clients to be insured, pushed premium levels and profitability for MBAs. The lack of taxation of MBAs also helps them in competition with commercial insurers, and to some extent creates an imbalance in the insurance market. Rather than taxing the MBAs, there should be consideration of eliminating the taxes on commercial (micro) insurance premiums.

Curiously, the MI-MBA model seems to be experiencing limited success outside the Philippines, where RIMANSI and CARD have tried to expand it. This may reflect cultural differences or other factors that are somewhat unique to the Philippines. More research in this area is required prior to other replication efforts.

In summary, the number of MBAs licensed to sell insurance before the Microinsurance Framework was 22 (2007), including one MBA dedicated to MI. The number of all MBAs at 31 December 2014 was 34, of which 21 are MI-MBAs. This dramatic growth has been a major driver of microinsurance expansion in the Philippines. The impact of the MBAs in preparing the market for greater microinsurance penetration cannot be understated. They helped to build an insurance culture through mandatory, though client demand-led, products to millions of low-income people. Most importantly, they serviced their products in ways that focused attention on clients and showed that insurance is valuable for the low-income market participants. This created a platform for commercial insurers to emerge into a market that was already relatively confident in the benefits of insurance.

New entrants as formal agents

The second major area of formalization in the Microinsurance Framework was the very liberal identification of microinsurance agents. The IC's perspective was that Cooperatives, rural banks and others could offer microinsurance as agents of insurers.

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[54] The story behind the creation of CARD MBA can be found in McCord and Buczkowski's (2004) "CARD MBA: Good and Bad Practices in Microinsurance," Case Study #4 of the CGAP Working Group on Microinsurance series.

[55] CARD MBA's 1-3-5 day claims settlement target works as follows: settle within 1 day if the body is not yet buried at the time of validation; settle within 3 days if the body is already buried at the time of validation and with complete documentation; final disposition (settlement or rejection) within 5 days.

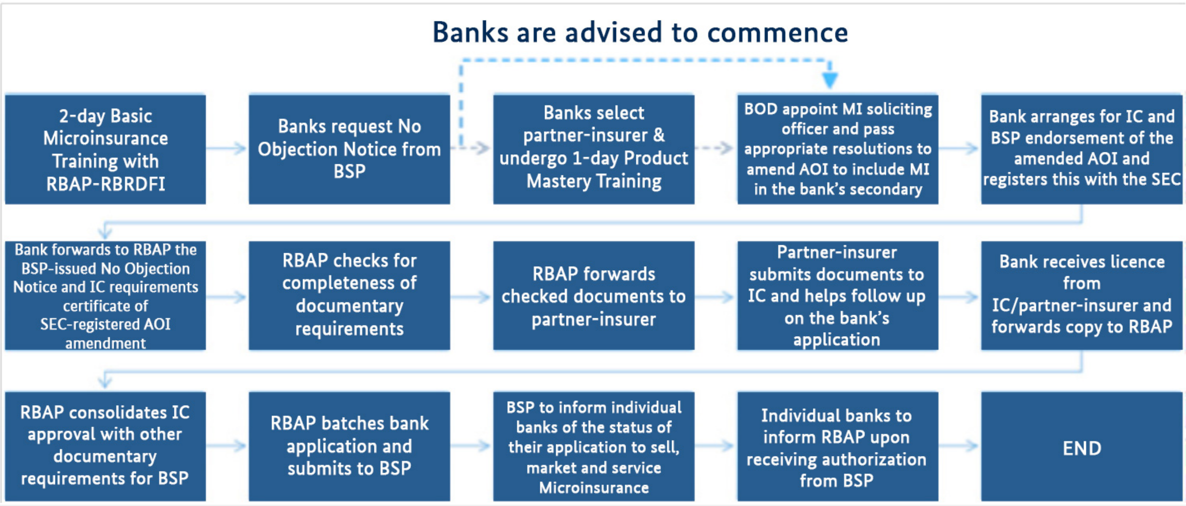
[56] Koven, R., McCord, M., Wipf J., & Zimmerman, E. (2012). MILK Brief #14: The Business Case for Life Microinsurance in the Philippines: Initial Findings. Appleton, WI: The MicroInsurance Centre

In the case of the rural banks, allowing rural banks to act as agents conflicted with existing BSP policy and regulation which did not allow them to sell insurance products. (The Banking Act notes activities that are allowed and is structured such that only those activities noted are allowed). The coordination between the IC, BSP, and SEC around microinsurance proved tremendously important as (with some internal effort) the BSP released Circular No. 683 - Marketing, Sale and Servicing of Microinsurance Products, which created a window that allowed rural banks to formalize as MI agents if they wished to offer microinsurance.

This BSP Circular opened the market to 6 million member clients of rural banks around the country. This, combined with the coops, makes the potential market expansion well over ten million people in the Philippines.

To facilitate the formalization of rural banks, a path to agent licensure was developed that involved the IC, BSP, and SEC. This process is outlined in Figure 7, below.

Figure 7: MI Agent licensing process for rural banks



Source: http://www.microinsurance.rbap.org/l-a-d-d-e-r-s-microinsurance-development-toolkit/ (9 April 2014)

Rural bankers noted the difficulties and time consumption required to manoeuvre through the process. According to the BSP, as of 31 December 2013:

- 209 rural banks have completed the formal training process
- 81 rural banks had registered with the BSP
- 40 rural banks have been fully approved
- 25 rural banks are actively offering microinsurance

The formalization process for rural banks was facilitated by the USAID MABS project, which created a "one-stop-shop" for assistance in compiling the full packet of required documentation at the start of the process. They also provided the formal training (which was authorized by the IC as being in compliance with the 2011 IC C.No.6 - Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents. This requires two days of training by an authorized MI training program on a number of specific topics, and one day of product-specific training by the regulated insurer.)

It is interesting that of the 40 rural banks that have been authorized as microinsurance agents, only 25 are actively offering microinsurance. Why would a rural bank go through this process if it had not intended to offer microinsurance? A number of reasons were provided, and some are noted below (in no particular order):

- For most rural banks this process takes more than a year. Their situation at the start of the process is different than their situation at the end of the process. For some rural banks, they have offered new banking products, are in the process of changing computer software, or have made some other major change whose implementation requires it to be prioritized higher than microinsurance.
- Some rural banks recognized that they would eventually want to offer microinsurance and they believed that the process would be very long. Thus, they went through the process so that whenever they may be interested in actively selling microinsurance, they will be prepared.
- The current commission rate for traditional insurance is 30% while that for microinsurance is 20%. Some rural banks are currently selling microinsurance through their board members (outside of the microinsurance regulations). The board members do not want to lose that income source and thus have chosen to retain the business themselves. They also note the tax benefit if the commissions are not run through the books of the rural bank. It was repeatedly noted that there are more than 100 rural banks that currently use this strategy.

Understanding the offering of microinsurance through rural banks requires a knowledge of microinsurance activity within the rural banks. The BSP notes that it has not actively tracked such activity within the rural banks, though they do note that rural banks offering microinsurance would be detected during the on-site visits. It was noted that in March 2014, the BSP will begin work to structure a format to identify and track MI activities, volumes, products, and other details within the rural banks. As of February 2014, the BSP offered that they have no information on microinsurance and rural banks.

During our presentations and discussions with the IC, the Commissioner, Mr. Dooc, questioned if it might be a good idea to impose a time limit on rural banks, and even insurers, that are approved for MI agency status or MI products. Such a move has the potential to damage the market either by keeping agents from beginning the process which currently takes many months, or by pushing agents into microinsurance before they are ready.

The process for rural banks to become licensed agents (as outlined by RBAP) is shown above in Figure 7.

Quantitative data on the coops and their response to the formalization requirements is limited. Historically, a number of coops had already (by the time of the framework) created CLIMBS and CISP, which are owned by coops. Other coops have generally followed one of the following three options:

1. Partnered as agent of an insurance company (either a regular commercial company or CISP or CLIMBS);
2. Organized their own MI-MBA; or
3. Purchased a group policy with the coop as policyholder in behalf of its members.

These methods satisfy the requirements of the framework.

In summary, the number of rural banks offering microinsurance (legally) before the Microinsurance Regulatory Framework was zero. The number as of end 2014 was 48. The objectives of IC CDA SEC memo circular 1 of 2010 have not yet been met, though there has been important progress. The process of transition and formalization is long and fraught with many issues. The fact that many institutions are still in the process of formalization is maybe a more important indicator of progress. Formalization is progressing, and the framework policies including IC CDA SEC memo circular 1 of 2010 have been important in driving professional formalization, as agents of several current and likely future institutions which will ultimately lead to microinsurance access for over 10 million people.

2.4.3 Lessons in formalization

Rural Banks

Onerous process: Because of the need to satisfy concerns of the BSP, the process for rural bank registration as agent has been long and appears to have created a practical limitation to expansion.[57] The process is long, initially labour-intensive, and in the end does little to change the impact of formalization for rural banks that could not have been achieved simply by them having a few staff attend a training and noting their changing status to the regulators.

Registration time: Potentially the long duration of the formalization process for rural banks is a de-motivator, as several rural banks that finished the process have not begun to formally offer microinsurance. Others have not gone far in the process.

Insurance stability: Discussions with rural bankers and assessment of their actions and activities provides reasonably clear confidence that the formalization of these entities has improved their professionalism in offering microinsurance products. Additionally, this has led to clients getting better, safer products which are likely stronger in terms of consumer protection.

Coordination: Lack of coordination between BSP and IC is leading to a slower process of formalization. The BSP should be including aspects of the MI-related requirements while conducting their on- and off-site supervision activities. A lack of this level of oversight is leading to slower formalization as rural bankers wait to actually formalize.

MI-MBAs

MBAs and MI: Formalization of MI-MBAs (and rural banks) was arguably the most important of the microinsurance policy intervention. The MBAs have dramatically impacted the creation of an insurance culture. Surely, the culture is not complete, but the efforts of MBAs to satisfy their clients have gone a huge distance in building this culture.

MBAs and the IC: Several agencies in the Philippines have some level of control over insurance from particular insurers or distributors. That the IC included the MBAs offering MI under IC regulations was an important step that fully legitimized MBA efforts in microinsurance.

2.4.4 Challenges in formalization

Full formalization: There are still many organizations that fall under the requirements of formalization that have begun but not completed the process, or have not implemented once they did complete the formalization process. The larger and to some extent more easily identified organizations have formalized as distributors. The ones that remain represent substantial numbers of policyholders. A concerted and coordinated effort will be necessary to formalize the remaining informal schemes.

Easing registration requirements: The process of registration for rural banks and maybe others is too challenging and seemingly could be much easier while maintaining control over the process. This requires additional coordination between IC, SEC, and BSP, as each is involved in providing approvals for the registration. Improving / easing the process of formalizing for distribution channels should help to increase the number of organizations that are offering product to clients and others.

[57] The BSP requires rural banks applying for an agent license to amend their charter to include the selling of insurance as a secondary purpose. Any amendment to the charter of rural banks is then scrutinized minutely by the BSP which takes significant time.

2.5 Strategic Objective 4 - Financial Literacy

2.5.1 Rationale

Financial Literacy is the fourth of the strategic areas of the National Strategy on Microinsurance recognizing that insufficient literacy levels in financial matters, especially insurance, can be the reason for a purchase option that is missed, a wrong product choice, a missed renewal, an abusive sale, a missed claim, or a wasted recourse option.

The **Road Map to Financial Literacy on Microinsurance (January 2011**) "envisions adequate risk protection for the low-income sector through a strong insurance culture among the Filipinos" and "to achieve this, key stakeholders shall build their capacities, increase their knowledge and improve their skills to become proactive in the provision and promotion of microinsurance". Better financial literacy motivates private sector participation, and vice versa, relies on the inputs of the private sector. Financial literacy is an important precondition for regulatory provisions to be effective. Formalization efforts require a certain financial literacy, i.e. clients recognizing that licensed insurers and agents can be expected to provide better services. Financial literacy is to act as a first line of defense and protection for consumers, being a complement to appropriate regulatory measures. It also allows consumer protection to have a lasting effect, as an informed consumer is a consumer who is better protected from the above pitfalls.

Figure 8: Key Strategies and Strategic Objective 4

Strategic Topic	Strategic Objectives	
1 - Private sector participation		**5 - Consumer Protection:** Rights and privileges of the insured poor are protected
2 - Policy and regulation (including supervision)		
3 - Formalization		
4 - Financial literacy	Institutionalization of national financial literacy framework	

2.5.2 Stakeholders, activities and outcomes

The "Roadmap to Financial Literacy on Microinsurance" names nine stakeholder groups that are expected to engage in promoting and / or benefit from financial literacy work, supported by development partners.[58] The public and private stakeholders are as follows:

- Public: legislators, regulators, national agencies and local government units (LGUs)
- Private: insurers, intermediaries and support institutions, and also,
- Current and potential policyholders / clients.

The Roadmap also provides messages to be communicated to these stakeholder groups.

In the recent years, the main activities as outlined below were driven by both public and private stakeholders:

(1) The designation of January as the **Microinsurance Month** was implemented even before the Roadmap (since the year 2006), with the celebration continuously driven by the DOF-NCC and the IC. The regulators, insurance associations, and insurance companies celebrate microinsurance month (jointly and individually). Activities included public seminars, speeches and press articles. The 2010 celebration could be considered the grandest, since this is when the Regulatory Framework and National Strategy were launched. The Roadmap was launched during the 2011 celebration. The 2012 celebration was highlighted by an awarding / recognition of microinsurance "champions" both in the private and public sectors.

[58] GIZ/BMZ and the ADB-managed Japan Fund for Poverty Reduction supported the financial literacy process over several years.

(2) A series of **Road Shows** 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 Road Shows 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 Road Shows. 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".

(3) **Over the past years, the DOF-NCC and the IC have been continuously advocating MI** to increase awareness of the relevance of insurance and improve insurance literacy of the population with a focus on the low-income segment. The Insurance Commissioner has been raising microinsurance in numerous public speeches and in meetings with other stakeholders from the public sector, the private sector and the press.

(4) **Institutionalization of financial literacy** efforts have taken place at various levels, for example:
- Some private universities have integrated the subject in their courses. MI is being used as thesis topic and elective subject in some private universities.
- Some insurers or distribution channels use prime time TV and radio slots to advertise microinsurance.
- The association of agents and brokers has a regular radio program with live streaming (every Monday) on „insurance for all". Often, they talk about MI.
- The Institute for Asia and the Pacific (IIAP), the training arm of the industry, is offering a microinsurance seminar as a regular course. This seminar is even attracting participants from other Asian countries.
- Plenty of insurance companies promote MI on their respective websites and Facebook accounts.

(5) **The industry is continuously making efforts** to prepare sales by informing potential and actual clients of risks and the opportunities of risk mitigation by insurance products. All insurers and agents reported that they invest significant amounts and time in informing clients on products and services, each time when a new product is launched. Insurers consider these efforts "financial literacy training"; however, the researchers consider these more of a marketing effort because of their clear relation to sales.

(6) **All stakeholders use the MI logo in a variety of means that help the public to recognize microinsurance and transmit "the microinsurance message".** The MI logo was used on the microinsurance strategies, on all polices, on business cards and on a range of communication materials. In addition, the signage of an MI Agent was published in the branches. A microinsurance video was developed by authorities and development partners and a MI blog installed (http://microinsurancephil.blogspot.de/).

Outcomes: The awareness of the financial literacy challenge and the capacities to address financial literacy have improved with all stakeholders. Industry and other stakeholders that were interviewed reported that the status of financial literacy among clients and prospective clients has notably improved, which is mainly felt by improved take-up. Some insurers emphasised that the variety of products now being purchased is sufficient proof. However, objective means for measuring improvements would require impact or usage studies at client level.

2.5.3 Lessons in financial literacy

The know-how and awareness of insurance for the low-income segment is reported to have increased broadly and at many ends, from local politicians to numerous staff of insurers and distribution channels.

Over time, commercial insurers seem to have developed a better understanding of the low-income segment which led to an increased understanding of the business potential and further motivated insurers.

The private sector has been playing an important role in advancing financial literacy: sales forces of insurers and agents played perhaps the most important role in providing financial literacy. Insurers and agents consider "consumer information" as their intrinsic task to prepare a sale. For them, it is a crucial means of opening the market of which they are in charge. Therefore, we can say that "institutionalization" of financial literacy has taken place as part of the insurers and intermediaries marketing efforts.

The Road Shows stimulated private engagement. The Road Shows provided free access to materials, training of staff and sensualisation of disseminators, and in addition, information to some clients. Even though outreach to the actual clients was limited during these Road Shows, important multiplication effects were achieved by the advocacy approach.

The DOF-NCC and the IC assumed a catalyser role in their effort to limit public support to the implementation if financial literacy work, leaving most of the activities to the private sector.

The branding efforts relying on the MI logo, which were undertaken by both public and private sector, helped to create a kind of "Filipino MI identity". The logo is widely and broadly used.

2.5.4 Challenges in financial literacy

(1) Impact of FinLit measures: An impact assessment of improvements that were achieved and of which instruments work best as well as an assessment of the gaps remaining in financial literacy are pending. This research is a valid investment to better understand what works, what is efficient and what is required in future.

(2) FinLit strategic direction: The Financial Literacy Roadmap was implemented; however, as for now, it is not a future-oriented strategy providing direction to deal with current and future challenges of a growing market. This market is diversifying and expanding. A future focus on client value would be beneficial.

"The best proof of improved financial literacy in Philippines is the evolution of products in respond to demands – from simple products to more sophistication."
Industry association

(3) New target groups and themes: Target-group oriented and thematic financial literacy efforts, as well as follow-up campaigns, are a way to "go deeper" in improving financial literacy.

(4) Integration with existing efforts of others: The BSP has a comprehensive economic and financial learning programm. However, the researchers did not learn about efforts to link MI and microfinance training modules. Financial literacy with a focus on insurance could be broadly included in general financial inclusion efforts of educational programs and organizations such as universities' school curricula.

2.6 Strategic Objective 5 - Consumer Protection

2.6.1 Rationale

All policy documents and the four strategies have been pointing to consumer protection (CP) (see ***Figure 9***). The private sector has an important role in implementing it. The Regulatory Framework and many of the circulars focus on CP. The formalization approach was predominantly motivated by a consumer protection objective. Financial literacy is a basis for CP. Finally, the ADR system is rooted in the strategic area 5. Hence, consumer protection is a cross-cutting topic broadly embedded at the regulatory level. It is also a sector task that is being implemented by all stakeholders engaged in advancing microinsurance market development.

Figure 9: Overview of Key Strategies and Strategic Objective 5

Strategic Topic	Strategic Objectives	
1 - Private sector participation		**5 - Consumer Protection** Rights and privileges of the insured poor are protected
2 - Policy and regulation (including supervision)		
3 - Formalization		
4 - Financial literacy		

2.6.2 Activities and outcomes along the Microinsurance Network's Assessment Framework

Efforts to protect the microinsurance consumer are mainly been undertaken by the IC and the industry. To implement its mandate regarding the low-income insurance segment, as with any kind of consumer, the IC relies on regulation and supervision. In view of the low level of insurance education often encountered, the IC has also become engaged in advancing financial literacy for the low-income segment in addition to its traditional instruments. Industry actors, on the other hand, state that they rely on the regulatory provisions regarding products, agents, claims, or transparency.

An assessment of a holistic consumer protection approach, to which all stakeholders contribute, is henceforth necessary. A recent consumer protection study[59] developed a holistic CP Assessment Framework, which considers all stakeholders and explored challenges and good practices in consumer protection in microinsurance. The paper defines consumer protection as *"the effective use of microinsurance products by low-income consumers to protect themselves against risk."* The paper identified consumer protection challenges in four categories of the framework: 1) education and information, 2) product and process design, 3) regulation and financial soundness of providers and programs, and 4) capacities and responsibilities of stakeholders. The study looked at Colombia and Philippines as case studies.

Table 13 provides an overview on the CP topics identified along the four categories, and also used for extracting lessons and identifying challenges.

Note that the table does not intend to provide a complete CP assessment. Rather, the intention is that the IC use this framework to assess the CP efforts in the sector and in the commission, to identify challenges, and on this basis, to consider redefining the IC approach, or even the national agenda in CP.

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[59] From 'Pure' Intentions and Practice: Challenges and Good practices in Microinsurance; Magnoni, Zimmermann and Camargo, 2013 (MIN and BMZ)

Table 13: Consumer Protection Assessment Framework of the Microinsurance Network

Topic	Assessment		
	Legal obligation	Activity	Challenges
1. Information & education			
1.1. Education on risk management and insurance	None	Sales staff educates prospective and actual clients and beneficiaries	1. Can the insurance associations assume a greater role here?
1.2. Training, education and information for intermediaries, delivery channels and other parties	Agent Training: • IMC 1-2010 • BSP 683-2010 • CL 6-2011	Training for agents implemented by RBAP and insurers	
1.3. Disclosure of information to consumers		Done by sales staff	2. Is the disclosure to clients and beneficiaries effective?
2. Design and delivery of product and process design			
2.1. Appropriateness of the products to the needs of consumers	Product: IMC 1-2010	Registration and quality check of products	3. Are the products always creating true value for the client?
2.2. Protection of data and money shared/transferred by consumers			
2.3. Claims handling process		Claims to be honoured within 10 days (industry standard, no legal obligation)	
2.4. Complaints-handling mechanisms (internal and external)		Insurer handle cases internally	4. How many complaints remain unresolved as they do not reach the IC?
2.5. Dispute resolution mechanism	CL 15-18 2013 on mediators training and procedures for accreditation	Circulars were issued Mediators are being trained in 2014	
3. Financial soundness of providers and programs			
3.1. Licensing, for risk carriers – room for unlicensed risk carriers	MI-MBA formalization process	MFIs or cooperatives were creating Mutuals Rural banks stop self-insurance and got agent licenses	5. What is the magnitude of remaining self-insurance schemes that are not identified by the IC or the BSP?
3.2. Reporting requirements of risk carriers	SEGURO PS	Separate reporting on MI required (since 2011)	6. How can compliance by insurers and quality of reports be improved? 7. Which action can IC

3.2. Reporting requirements of risk carriers	SEGURO PS	Separate reporting on MI required (since 2011)	6. How can compliance by insurers and quality of reports be improved? 7. Which action can IC take in terms of SEGURO reporting?
3.3. Approval processes of microinsurance products	IC to approve all products	Done as products are filed	8. Capacity of staff to analyse products when they become increasingly complex
3.4. Access to distribution channels	IMC 1-2010 BSP 683-2010		
4. Capacities of stakeholders			
4.1. Primary responsible for consumer protection and other authorities.	IC for insurance BSP for MFIs and Banks as delivery channels	Various regulations to formalize as agent or underwriter; product rules and standard contract Intermediary training	
4.2. Synergies, redundancy or conflict between roles of different parties?			9. Are there gaps with other authorities?
4.3. What efforts, if any, are made to increase the consumer protection		Training of agents Training of IC staff	10. Is the client and his demands and behaviour sufficiently

Source: MIN and BMZ 2013

2.6.3 Lessons in consumer protection

The researchers could not establish a complete assessment framework which analyses all four topics in their full depth. More complete and deeper assessment of all CP issues is a pending task for the future. We could come up with some insights in the four categories that in part repeat the findings and challenges of other sections. However, a dedicated look at CP has the advantage of applying a "CP lens" which is provided here.

1. Information & education: Important progress was made in the area of market conduct, specifically in terms of the dedicated MI agent training for rural banks.

2. Design and delivery of product and process design: The product standards and simplified policy forms help to provide clear information to the client.

3. Financial soundness of providers and programs: Important progress was made on the prudential side by implementing the provisions of the regulatory framework regarding the formalization of underwriters and agents that are now operating in the formal insurance space. Important achievements were also made at the intersection of the various authorities (BSP, IC, SEC and CDA) in terms of formalization and transparency. The SEGURO PS reporting system requires continuous investment to fully implement it.

4. Capacities of stakeholders: In the supervisory process, the performance standards are an important instrument; however, their full implementation needs considerable efforts by the industry and the IC. The contribution of the ADReM system is yet to be proven.

2.6.4 Challenges in consumer protection

The following questions provide first insights into the CP-related challenges under a holistic perspective, as they emerged from the above assessment:

(1) Can the insurance associations assume a greater role here?
(2) Is the disclosure to clients and beneficiaries effective?
(3) Are the products always creating true value for the client?
(4) How many complaints remain unresolved as they do not reach the IC?
(5) What is the magnitude of remaining self-insurance schemes that are not identified by the IC or the BSP?
(6) How can compliance by insurers and quality of reports be improved?
(7) Which action can the IC take in terms of the SEGURO PS?
(8) Is the capacity of the IC staff sufficient to analyze products when they become increasingly complex?
(9) Are there gaps in supervision at the intersection with other authorities?
(10) Is the client and his demands and behavior sufficiently understood?
(11) Which are the training requirements of IC staff in CP?

These questions do not intend to provide a complete list of challenges; they can, however, show the magnitude of topics and challenges that arise when striving to understand and implement a multi-stakeholder, multi-topic CP agenda.

3. Indicators measuring regulatory impact

3.1 Defining impact areas and indicators

In Step 3 of the RIA-MI methodology, outlined in Section 1.1, we suggested that selected indicators on the impact areas and institutions are being defined. The reason for this approach is that objectives cannot be measured directly with a single variable, but rather, they require a set of variables. We wanted to implement a substantiate assessment, relying on a set of twelve **quantitative and qualitative impact indicators**, with data and information to show facts and highlight trends.

We defined three major impact areas and developed detailed indicators along which impact will be measured in each of these areas. We also defined certain points in time before policy or regulatory change to show the changes achieved.[60]

In an optimal world, regulatory impact indicators are set when developing the regulatory or

"IC wants to institutionalize the ADR System – that the policyholder has a level playing field and knows where to go."
Insurance Commission

strategic framework, and are derived from the policy objectives, such as "sustainability of microinsurance business," and from the various strategies. We consider that the four goals of the National Strategy (see Section 2.1) – private sector participation, policy and regulatory environment, formalization, and financial literacy – do not serve best as impact areas. Therefore, we

[60] The available data at the IC and elsewhere was a limitation in some cases. Some developments could be traced back to 2006, others such as the Performance Indicators were only available for two years 2012 and 2013.

propose the following **three impact areas**, because we consider these to reflect what was achieved in the market:

- market development (quantitative indicators)
- quality of institutional development (qualitative indicators)
- client value (quantitative indicators).

We also propose a **traffic light-based ranking,** which allows for assessing progress, and, at a later stage, comparing the country performance to that of other countries.

Ranking	**Significant improvement required**	**Good progress**	**Excellent**
Assessment	• Narrative rationalizing the assessment		

3.2 Market development (quantitative data)

The first group, the market indicators, intends to measure the depth of market development considering the dimensions of insurers and intermediaries and their production and performance.

Indicator 1: Insurers engaged

- Magnitude of engagement: 42 commercial (including two cooperative insurers one of which a composite company), and 21 MI-MBAs, for a total of 63. This is out of a total of 138 insurers altogether (104 + 34 MBAs) as of 2014
- Variety and number of insurers: All three types of insurers engaged significantly
- Concentration: MI-MBAs hold 64% of life portfolio

Insurers engaged: 63 out of 138 = 46% at end 2014			
Ranking	Significant improvements required	Good progress	**Excellent**
Assessment	• The number of 63 insurers engaged is high compared to 2006, when only nine insurers had a rather limited engagement (1 cooperative, 2 commercial insurers, and 6 MBAs). • 46% of insurers show some form of engagement in microinsurance. • All insurers will not be involved in MI and should not be expected to be.		

Indicator 2: Intermediaries licensed

- Three types of intermediaries: brokers, institutional MI agents such as rural banks, and individuals as MI agents
- Individual agents: 96 in 2012, 122 in 2014
- 1 dedicated MI broker
- 48 rural banks as MI agents in 2014 (26 in 2012)

Intermediaries licensed: 170 (Dec 2014); 125 (Dec 2012)			
Ranking	Significant improvements required	**Good progress**	Excellent
Assessment:	• The number of licensed MI intermediaries is significant. • Rural banks were informally providing MI, and they cater for large pools of insured.		

Indicator 3: Products approved

- As of 2009, 18 products had been registered under the 2006 circular.
- As of 2014, the number increased to 162 registered products, from 127 in 2013 and 119 in 2012.

Sharp increase of registered products, from 18 in 2009 to 162 in 2014			
Ranking	Significant improvement required	**Good progress**	Excellent
Assessment	• Increasing number of products in all lines		

Indicator 4: Microinsurance coverage

- Insurance coverage grew consistently from 19.9M (2012) to 25.2M (2013) and 31.1M (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)

Consistent growth of coverage and increasing share of MI business in the industry			
Ranking	Significant improvement required	Good progress	**Excellent**
Assessment	• High growth rate of insured members • Increasing MI coverage. Commercial companies increased participation beginning 2012.		

Indicator 5: Life insurers' microinsurance production

- 11.8Mn (2012), 15.8Mn (2013), 21.2 Mn (2014) or 59%, 67% and 68% of MI coverage, respectively.
- Premium collected= 0.89% of total life business or PHP 1.42 billion (USD 30.3 million) in 2014.

Life insurance 2.2 % of life industry production			
Ranking	Significant improvement required	**Good progress**	Excellent
Assessment	• Small market share of life insurers, but growing number of coverage with annual average growth of 34%		

Indicator 6: Non-life insurers' performance

- Policies grew 11% over 3 years (2012-2014)
- Premium grew by 4% over 3 years
- Market share of MI in total non-life business is 0.81%

Non-life insurance premium growing average 4% annually (2012-2014), but low loss ratio at 26 % average, except in 2014 (156%) due to claims from T. Haiyan			
Ranking	Significant improvement required	**Good progress**	Excellent
Assessment	• Dramatic growth significantly from one distributor ↓ Very low loss ratio relative to insurance market and microinsurance in other countries		

3.3 Institutional Development (qualitative data)

The achievements in institutional development can be noted at four levels: the insurers, the agents, the authorities and the meso level. It looks at the systems that were established, the processes, and the staff engaged.

Indicator 7: Diversity of business models

+ Wide range of distribution facilitating access
+ Strong and varied range of commercial models from departments, to agents, to an MI-only broker, to an MI-only insurance company
+ MBAs providing a platform for insurance culture
+ MI Framework intentionality in recognizing the need for a range of business models
- Results by model are not tracked to improve knowledge of the potential for different models

MI Framework intentionality in recognizing the need for a range of business models			
Ranking	Significant improvement required	Good progress	**Excellent**
Assessment	• Range of distribution • Range of insurer models		

Indicator 8: Magnitude of formalization

+ From zero formal rural bank agents to 48 licensed as agents (with 26 active in MI selling)
+ From 1 MI-MBA to 22 (formerly many of them were self-insurance schemes)
+ The MBA legislation itself
+ Coops making significant moves to formalize
- Lack of coordinated enforcement
- Many organizations still need to comply with the regulations

Major coordinated efforts towards formalization			
Ranking	Significant improvement required	**Good progress**	Excellent
Assessment	• Good range of distribution • Good range of insurer models ↓ But lack of enforcement and non-compliance bring down the rating		

Indicator 9: Supporting services and platforms

+ One service provider that helped to build 17 MI-MBAs
+ TWGs as continuous dialogue platform and “working groups”
+ ADR system being built
+ One university course
+ MI advocates program (trainings and materials)

Relatively more strong support structures than other jurisdictions			
Ranking	Significant improvement required	Good progress	**Excellent**
Assessment	• Strong support is a direct result of the MI policy efforts • Per users, the advocates program has improved MI practices, saved money for insurers, and resulted in new clients		

Indicator 10: Insurance Commission capacitated and restructured in terms of MI

+ IC staff capacitated by a variety of means and approaches: MI Technical Committee, on-the-job training, MI exposure in TWGs, participation in advocacy work TOMA and mediators training
+ IC structures in place for dealing with MI internally: monitoring performance of MI providers, Deputy Commissioner acting as focal point for strategic discussion, interaction with other authorities and with industry, dedicated MI Division after 4 years of IC internal MI–Working Group
+ Performance monitoring system for microinsurance based on SEGURO indicators developed

Broad-based approach to capacity building and adjusting structures			
Ranking	Significant improvement required	Good progress	**Excellent**
Assessment	• A variety of capacity building approaches implemented • Dedicated MI division is in place • Data not easily available on products with sales		

Indicator 11: Other authorities and development agencies engaged

- BSP recognized the agent role of rural banks in microinsurance in specific regulation
- CDA recognized that cooperatives cannot act as risk carriers and manage self-insurance schemes
- DOF-NCC actively driving the policy process and technically supporting
- Three-partite joint circular to formalize self-insurance schemes
- Several development agencies continuously supporting country process; two driving agencies present for several years until today

Engagement of other authorities and agencies			
Ranking	Significant improvement required	**Good progress**	Excellent
Assessment	• A variety of capacity building approaches implemented • Data not easily available on products with sales		

3.4 Client value (quantitative data / ratios)

The following claims ratio/loss ratio indicator measures the level of client value.

Indicator 12: Claims / loss ratio in microinsurance

Source : Performance Standards Reporting to IC 2012-2014[61] (see Table 12)

- Life: 45.2%, 21.2%, 50.2% (2014, 9 companies reporting)
- Non-life: 18.3%, 33.1%, 156.4% (2014, 12 companies)
- MI-MBAs: 25.7%, 24.1%, 27.5% (2014, 19 companies)
- **Loss ratios are low, except in 2014 where T. Haiyan claims were high.**

Ranking	Significant improvement required	**Good progress**	Excellent
Assessment	• Life and non-life loss ratios are not satisfactory • MI-MBAs ratios are not satisfactory • Data limited (SEGURO) and data sets inconsistent		

[61] 2012 is the first year in which SEGURO Performance Standards data is available

4. Conclusions and strategic recommendations

4.1 Conclusions

The Philippine policy and regulatory framework crafted over several years in dialogue with the industry and with support of development partners, has oriented the private sector and the public authorities on its path to inclusion. A comprehensive set of mutually reinforcing strategies was developed and disseminated, and implemented consistently. The interplay of these strategies helped stakeholders to achieve important milestones in all five Key Strategies, which had and are having a measurable impact.

Table 14: Overview of Key Strategies including all 5 Objectives

<table>
<tr><th>Key Strategies</th><th colspan="2">Strategic Objectives</th></tr>
<tr><td>1 - Private sector participation</td><td>Increased participation of the private sector in the provision of microinsurance services</td><td rowspan="4">5 - Consumer Protection - Rights and privileges of the insured poor are protected</td></tr>
<tr><td>2 – Regulation and policy</td><td>Establishment of an appropriate policy and regulatory environment for the safe and sound provision of microinsurance by the private sector</td></tr>
<tr><td>3 - Formalization</td><td>Mainstreaming of existing informal insurance, insurance like, and other similar activities/schemes</td></tr>
<tr><td>4 - Financial literacy</td><td>Institutionalization of national financial literacy framework</td></tr>
</table>

(1) Public-private collaboration was an important driving force. The success of microinsurance in the Philippines can very much be attributed to a continuous interaction between the public sector and private stakeholders along this clear and comprehensive strategic orientation. Regulatory impact can hence not be attributed to the policy and regulations only; as proven in the Philippines, they only work well in an environment of mutual interaction and joint efforts. The strong partnership between the government and the private sector was a major force driving the agenda forward. The private sector has been playing an important role in adding to strategies, concepts and tools, but mainly, in delivering the products using appropriate and tailor-fitted processes and distribution mechanisms.

(2) More than a decade of multi-stakeholder engagement has changed the mindset of all players, who together achieved important milestones:

- 63 private underwriters, that is 46% of all insurers, engage partly or fully in some form of MI
- 31.1 million lives covered and COCs being served (2014)
- An increasing variety of basic products is being offered.
- A mix of intermediary channels distribute MI products
- A variety of insurer types engage in the market

(3) Microinsurance has established itself as a significant business line with an important amount of production and other economic and social contributions. Notably, there are important positive and measurable implications in the areas of industry growth, employment generation and tax income generation. The positive impact of having insurance in case of a risk event at the household and enterprise levels also deserves to be mentioned.

(4) The landscape of private microinsurance providers becomes greater each day. The broad engagement of private providers, predominantly initiated and still dominated by the Mutuals, at least in life, is becoming increasingly balanced with more and more commercial providers. The Mutuals as such also look into new ways of contribution to growth and diversification, for example by starting new partnerships in non-life.

(5) There is increasing competition for channels that "own" a client base. Cooperatives can now choose with whom to partner, which is positive; however, this may lead to excessive commission requirements that should be considered in terms of client value.

(6) The products and covers available have been growing continuously; however, the variety of insurance products such as supplemental health, agriculture or disaster is limited. Strategies and regulations did not cover important areas that clients are demanding, such as supplemental health, CAT, and agriculture.

(7) Client value can be improved. Education of insurers on value for clients could assist in this effort. Publication of days to claim payment and claims ratios based on KPI reports could provide incentive for insurers to improve. Importantly, the Philippines has at least a couple insurers that are focused on client value, and this is having a positive impact on the others.

(8) In the area of financial literacy, the government played a limited but important role as a catalyst. Its "replication approach" meant working with a wide variety of stakeholders at the three levels – macro, meso, and micro – and in all regions. This allowed the broad-based use of the material because there was no copyright of the material.

(9) The formalization efforts, implemented under a joint effort, relied on two legs. Informal insurers could either partner with an underwriter as agent or form an MI-MBA.

(10) Innovative market responses are coming up in terms of partnerships. MI-MBAs, limited to life business by their nature, are starting to partner with non-life insurers, concentrating on their core business of basic life and achieving product diversity with insurers.

(11) The authorities invested significant amounts of effort and government budget when helping to build this industry. The continuous commitment of development partners in providing financial and technical support to these efforts over many years was also instrumental to the changes achieved at many fronts.

(12) The IC facilitated innovation while constantly improving its know-how and capacity. With growing national markets and macro-economic changes such as the ASEAN integration, the IC will face greater challenges. It can concentrate on a "responsible insurance agenda" that avails protection to both the insurer and the insured. It can improve its way of collecting and analyzing and also taking action on performance data. It can become a proactive driver of client value, while continuing to enable sustainable and broad-based MI business.

(13) The DOF-NCC, over many years, was able to push these changes as the commitment, funds and continuous support from the development partners was in place. Support came mainly from BMZ/GIZ and ADB. The DOF-NCC had mobilized over EUR 2 million plus USD 10 million over several years. In addition, funds from the FIRST Initiative and USAID supported the IC and MI market development.

(14) The policy path chosen back in 2010 allowed stakeholders to make the right moves. However, the policy path for the next phase of MI market development should include issues such as greater product diversity, the expansion of new lines such as micropension[62], health, catastrophic and agricultural

[62] The Insurance Commission has already issued in October 2015 the Micro Preneed Framework and circular (CL 2015-51) providing guidelines for the provision of pension, education plan and memorial plan products by pre-need companies.

insurance, the opening up of new distribution channels including non-financial channels, the right incentives for the industry such as taxation in non-life, and a more balanced outreach including in remoter regions.

4.2 Strategic recommendations

The following strategic recommendations are based on the lessons which were drawn in chapter 2 (The policy framework and its implementation).

Table 15: Strategic Area 1 – Private sector engagement

Challenges	Recommendations
Further expansion: Adding new insurers and distribution	**Continued promotion** of MI by policymakers will be helpful. Provide an update to the advocate series with a focus on leveraging the training and materials. Use the tools that have been developed, such as the MI jingle, in a focused manner to ensure a return on the market education investment.
	Developing benchmarks based on experience. The required KPIs (if accurate, complete, and timely) provide a good base of knowledge for constructing a set of benchmarks. A more clear and quantitative understanding of the market will help insurers to improve and could lead to awards and other promotions. **Do not mandate insurers to sell MI**. Not all insurers should provide MI, and thus although there may be incentive for policymakers to force insurers into the market (as in India) this is not likely to be successful.
Insurer capacity: Improving the knowledge of good MI before insurers develop and offer products	**Training** programs through the insurance institute on particular MI issues is important.
	Insurance associations should be **promoting specific literature** that is designed for insurers and is in a form that they will be interested in reading. This should be promoted on an international level so Philippine insurers can learn the lessons of MI from other jurisdictions.
	Promotion of **insurer membership in the MI Network** may help to provide effective MI knowledge to insurers.
Commissions: Competition for high volume distribution channels may lead to excessive commissions.	Other jurisdictions have tried to fight high commissions with caps. These appear to be ineffective as they result in either diminished interest in selling MI, or in developing some extra-regulatory "fee" to increase earnings of the distributor. How to effectively control commissions on MI remains an open question.
Product variety: Continued product variety is necessary for effective MI evolution.	Variety improved with the introduction of the BBK product. **Development of additional product prototypes** (not full products) with fast track approval and other incentives may help insurers to offer new products without the full cost of product development. Such an approach may also aid the non-insurers.
	Based on a business case approach, **agriculture and catastrophic covers may be incentivized through smart subsidies**. Although there are currently efforts to address at least the agricultural issues by commercial insurers, smart subsidies may improve the potential to sell masses of effective policies. This would help insurers and reinsurers to view such products as potentially profitable.
Taxation: Tax issues create an uneven playing field and reduce value for clients.	Coordination with the Fiscal authorities to **reconsider the taxation issue on MI, especially in terms of the imbalance between MBAs and commercial insurers**. It would be possible to estimate the impact of eliminating the tax on insurers providing MI (for their MI portfolio) in terms of better and cheaper products for clients. Such an estimation should be considered as part of the argument to the Fiscal authorities. (Life insurers did receive a reduction in their product level taxation. Non-life insurers are trying to do the same presently.)
Intermediary regulation: Limited enforcement and clarity have reduced	**Enforcement of intermediary regulation** should be implemented in terms of informal organizations of a substantial size. The IC will need to coordinate with other agencies, such as the BSP, to gain assistance from agencies that oversee the violators.

the effectiveness of the formalization requirements.	There appears to be limited clarity on the numbers and types of agents. It is important to **maintain an accurate database of MI institutional agents**. If there are regulations related to them, there must be a mechanism to identify them.
	The registration process that involves the IC, BSP, and SEC for agency licenses, as with the rural banks, requires a **process mapping exercise to understand the timing and costs** of the multitude of steps. From there adjustments could likely be implemented, as long as this is done in coordination with IC, BSP, and SEC.
Future channels: There appears to be limited preparation for new distribution such as internet and mobile.	The IC should **explore the approaches of other countries** that are currently addressing these innovative distribution channels.
	This is an issue that should be **brought up to the IAIS** and its implementing partner for financial inclusion, the Access to Insurance Initiative (A2II).

Table 16: Strategic Area 2 – Regulation and Supervision

Challenges 2.3.4	Recommendations
(1) Sector Policy: An updated policy proposition will allow for defining the milestones for the way forward in regulation and supervision.	**Assess and discuss the status quo** to identify priorities for the maturity phase of the MI market, which is characterized by a variety of authorities involved, an increasing number of providers, more competition, more product diversity, and new distribution channels including partnership approaches with non-insurance or non-financial intermediaries.
	Develop a Policy Paper for Inclusive Insurance which supports the PND and responds to the identified challenges. The Policy Paper can identify solutions for the challenges and agree on a pathway for the future policy direction, to achieve sustainable provision, broad-based consumer protection and client value, a better regional balance and more product offers, including for development agendas like agriculture, health, catastrophic cover and old age.
	Set-up a TWG to develop the Policy Paper. This effort will allow for resuming the public-private momentum of the past, involving new-comers and developing innovative approaches for the sector's challenges.
(2) IC staff training: Training of the staff of the IC would benefit from a comprehensive approach and systematic planning and implementation, based on a thorough needs assessment.	**Implement a training needs assessment** for the new MI Division and involve other departments, and develop a staff training plan for MI.
	Possible list of topics: products such as CAT insurance, index-based insurance; innovative distribution channels and mobile insurance; complaints and ADReM; monitoring of microinsurance and data analysis; consumer protection.
(3) SEGURO Performance Standards: The regulation of PS is yet to be fully implemented and enforced.	**Revise reporting** to IC of insurers along SEGURO PS involving the relevant divisions of the IC. Identify areas where due action needs to be taken regarding a) the IC system; b) the way the insurers have been reporting; and c) the changes to be made to the system or circular.
	Create a TWG involving insurers to review the SEGURO PS circular as envisaged in CL5-2011.
	Train staff in the maintenance and analysis of the SEGURO PS system, the respective reports and the analysis of information.
(4) Leadership role of IC: the IC can intensify its leadership role to support MI further in insurance in areas such as data, trends,	**Data generation:** an important work area is the rapid generation of datasets that allow an overview on sector development, performance and sector trends.
	Assessment of sector risks can prevent issues such as regulatory arbitrage or portfolio concentration in high risk areas.
	Analyze challenges of regulation and supervision of distribution channels that may emerge, such as mobile phone-based distribution, internet, or other mass channels such as retailers.

sector risks, innovative distribution and client value.	**Develop a deeper understanding of client value.** IC should push research on household behaviour and preferences. IC can implement research projects, e.g. client surveys, and / or require insurers to implement such surveys. Topics could be: "how clients want to get information", or "the clients understanding of alternate dispute resolution", or "how clients are doing things"; among that would be filing a claim, accessing a call centre, or understanding things, e.g. what an exclusion is, or what dispute resolution is.
(5) Coordination with other authorities should identify current bottlenecks, and can also be more forward-looking.	**Intensify external coordination and collaboration** with BSP and CDA to identify topics at the intersection of these institutions. Consider collaborating with other players from related sectors or ministries (education, agriculture, and telecommunications).
	Assess whether supervision of distribution channels under other authorities is adequate and take measures to adapt if required.

Table 17: Strategic Area 3 – Formalization

Challenges	Recommendations
Achieving formalization: Getting all relevant organizations formalized	Work with the BSP and other related government agencies **to link enforcement of agent requirements to their supervisory visits**. Formalization helps all agencies, and since the IC has little to no access to many of the offending institutions, it is necessary for those that are overseeing distributor types to watch for non-compliance regarding MI policies.
	Addressing other recommendations, such as the tax issues with MI, may help to get greater formalization. One argument (stretching a bit) is that current methods of providing MI are not taxed, and thus formalization will result in taxation.
Easing requirements: Reducing the time and effort required to formalize rural banks and others	**Reducing the time and effort** required for formalization of rural banks and others through a revisit of the process by IC, SEC, and BSP is now timely (given 40 institutions worth of experience). Developing a full process map of the formalization complete with time and costs would be appropriate.

Table 18: Strategic Area 4 – Financial Literacy

Challenges	Recommendations
(1) Measure impact of FinLit approach: Implement an impact assessment of achievements and efficiency of instruments.	**Assess the achievements and instruments of past efforts to improve financial literacy** in the insurance context. This is an important input for designing future actions that may replicate past approaches, or come up with new ones (what works, which measures are cost-effective, who does what).
(2) Redefine FinLit strategic direction: The Financial Literacy Roadmap does not provide a future-oriented strategy to deal with future challenges of a growing market.	**Identify topics for a new round of financial literacy** responding to the recent trends in the environment, including new products and risks such as agriculture, health, index-based insurance, distribution channels such as point of sales and technology platforms, and new client segments such as MSME insurance and youth.
	Develop a new FinLit Strategy that focuses on effective learning (means that will be used) and client value (intended impact).
(3) Develop measures for new target groups and include new topics: Target-group	**Identify specific target groups** for financial literacy work such as entrepreneurs, women, youth, students, pensioners, to target activities and messages to these groups

oriented and thematic financial literacy efforts, as well as follow-up campaigns are ways to "go deeper" in financial literacy.	**Identify new topics and messages** that improve insurance know-how further, such as: - Priorities in mitigating risk - which insurance policies are first? - What to do to claim an insurance benefit? - What are the pitfalls in being insured?
(4) Integration with and leveraging of existing efforts of others: Piggy-back on the FinLit programmes and educational programs of other agencies.	**Integrate insurance into the microfinance and banking space**, i.e. the FinLit work of the BSP
	Consider a broader engagement of educational institutes for various levels (e.g. schools, universities, colleagues) **and associations** that can drive or integrate insurance in financial literacy efforts.

Table 19: Strategic Area 5 – Consumer Protection

Challenges	Recommendations
(1) Can the insurance associations assume a greater role in financial education?	Discuss with RIMANSI, PIRA and PLIA
(2) Is the disclosure to clients and beneficiaries effective?	IC to implement surveys, or push insurers to do surveys
(3) Are the products always creating true value for the client?	Implement sector dialogue and research. Often, product offer seems supply driven; need to find ways to ensure demand drive.
(4) How many complaints remain unresolved as they do not reach the IC?	Do surveys in certain communities or with certain agents.
(5) What is the magnitude of remaining self-insurance schemes that are not identified by the IC or the BSP?	Discuss with BSP; conduct spot-checks with MFIs, agents etc.
(6) How can compliance by insurers and quality of reports in SEGURO be improved?	Industry associations to train their members
(7) Which action should IC take related to the SEGURO PS?	Identify bottlenecks in system and organize meetings with insurers
(8) Is the capacity of IC staff to analyze products when they become increasingly complex?	Discuss in the IC
(9) Are there gaps at the intersection with other authorities?	Assess with these authorities
(10) Is the client and his demands and behavior sufficiently understood?	Develop understanding by supporting client survey
(11) Which are the training requirements of IC staff in CP?	Identify in the IC

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Appendix 1: Research Grid for RIA-MI

Stakeholders Strategic Goals	Insurers	Intermediaries	Authorities	Meso level actors	Clients
1. Private Sector Participation of the private sector	• Number • Premiums / claims • Business impact • Overall market size • Competition	• Number • Business impact • Types	• Licensing (microinsurers and products) • Reporting	• New actors; new roles or services (associations, actuaries, training institutions)	• Penetration • Provider choice • Product choice
2. RSP Policy and regulatory environment for safe and sound provision	• Licensing • Reporting (compliance and burden)	• Training • Registration • Reporting (compliance and burden)	• Capacity of supervisor (shifts) • Interagency cooperation • Shifts in supervision activities and / or approach	• Support for compliance • Capacity building • Changes in approach to pricing and risk	• Awareness of Microinsurance logo • Have acted after seeing a government MI promotion • Believe they have risk cover that they need
3. Formalization Mainstreaming of informal insurance	• Mutuals formalizing	• Rural banks licensed as intermediary	• Supervisory response to formalization	• Role in formalization RIMANSI; RBAP, others	• Awareness of formal status • Importance of formal status to clients
4. Literacy Institutionalization of financial literacy, strong insurance culture	• Role in financial literacy – development, implementation • Leveraging of govt. financial literacy programs	• Role in financial literacy – development, implementation • Leveraging of govt. financial literacy programs	• Role in literacy • Evolution of messages	• Role in financial literacy • Institutionalization of financial literacy components (training, pricing)	• Knowledge, cultural change • More knowledgeable purchases
5. Consumer Protection Rights and privileges of the insured poor are protected	• Changes in controls for consumer protection • Effective system of recourse • CP in product design	• Effective controls • Oversight	• MI ombudsman or other system • Issues tracking • Duration to settlement	• Institutionalized in trainings	• Access to recourse • Procedures that facilitate CP

Appendix 2: List of Organizations and Persons visited

Organization	Person	Position	**Email**
Bankgo Sentral NG Pilipinas	Pia Bernadette Roman Tayeg	Head, Inclusive Finance Advocacy staff	proman@bsp.gov.ph
Bankers Assurance	Carlo B. Diaz	General Manager	cdiaz@malayan.com
BPI (Insurance Company)	Alberto A.C. Santos	Director	acsantos@bpims.com
CARD Mutual Benefit Association	Janet D. Caneo	Deputy Director Administration and Finance	Janet.caneo@cardbankph.com
	Michael Kelvin Junos	In-House Actuary	Kelvin.junos@cardbankph.com
CLIMBS LIFE and GENERAL INSURANCE COOPERATIVE	Del P. Bellen	Regional Marketing Manager	dpbellen@yahoo.com metro_manila@climbs.coop
COCOLIFE	Maricar Miranda Mangulabnan	Asst. Vice President, Business Development Group Marketing	maricar_mangulabnan@cocolife.com
Country Bankers Insurance Group	Geraldine Desiderio-Garcia	Senior Vice President & General Manager	Jdg.cbig@gmail.com
Department of Finance (DOF) / National Credit Council (NCC)	Joselito Almario	Director	itoy.almario@yahoo.com.ph
Fortune Life Insurance Company, Inc.	Evelyn T. Carada, FASP, FLMI, MIAA	Executive Vice President & General Manager	Evelyn_carada@fortunelife.com
GEMBA, INC.	Carmen D. Rodriguez	President	Gemba2003@gmail.com
Manila Bankers Life Insurance Corp.	Mabini “Mabs” L. Juan	President & CEO	Mabini.juan@mblife.com.ph
Microensure (MI Broker)	William Martirez	Country Manager	william.martirez@microensure.com
Philippine Life Insurers Association PLIA	Ms. Evelyn T. Carada	President	
	Ms. Maricar Mangulabnan	PLIA Chairperson for MI Committee	maricar_mangulabnan@cocolife.com
	Mr. Elmer Baingan	MI Committee member	
	Mr. Roy Miclat	CISP President	roysmiclat@yahoo.com
	Mr. George Mina	PLIA General Manager	
	Claire N. Chua	Executive Vice President	

Philippine Prudential	Elmer Bala Baingan	Vice President, Head-Group Sales	ebaingan@philippineprudential.com ebbaingan@yahoo.com
	Eric P. Falcon	Manager – Group Sales	efalcon@philippineprudential.com efalcon111@yahoo.com
PIONEER	Marilyn C. Pozon (Len)	Vice President, Marketing Services & Communications	Len.pozon@pioneer.com.ph
PIRA - Philippine Insurers and Reinsurers Association	Alex D. Pablo	Manager, IIS & MSS Units	apablo@pirainc.com.ph
	Rogelio J. Concepcion	Deputy General Manager	rconcepcion@pirainc.com.ph
	Potch N. Nigos	Insurance Industry Support Unit, ADR-Microinsurance	mnigos@pirainc.com.ph
Republic of the Philippines, Insurance Commission	Ferdinand George A. Florendo	Deputy Insurance Commissioner – Financial Examination group	Fga.florendo@insurance.gov.ph
RIMANSI Organization for Asia and the Pacific	Jun Jay E. Perez	Executive Director	jeperez@rimansi.org
Rural Bankers Association of the Philippines	Jose Marie S. Dayao	Project Assistant – Microinsurance Initiative	jomadayao@gmail.com
	Vittorio Z. Almario	President	president@rbap.org
TSPI Mutual Benefit Association, Inc.	Eleanor S. So	Vice President & COO	esso@tspi.org
	Nelia A. Nayve	Chief Finance Officer	nanayve@tspi.org
Western Guaranty Corporation	Bernard Reyes	Vice President	Bgmreyes76@yahoo.com.com

Appendix 3: County and Insurance Sector Data over time (2007 -2011)

ECONOMIC INDICATORS	2009	2010	2011	2012	2013
GROSS NATIONAL INCOME (GNI)					
At Current Prices (P M) *	10,652,466	10,852,432	11,598,205 r	12,608,730 r	13,850,892 p
At Constant Prices (P M) *	6,988,767	6,851,138	7,039,948 r	7,496,546 r	8,069,033 p
GROSS DOMESTIC PRODUCT (GDP)					
At Current Prices (P M) *	8,026,143	9,003,480	9,706,268 r	10,564,886 r	11,548,191 p
At Constant Prices (P M) *	5,297,240	5,701,539	5,909,000 r	6,311,671 r	6,765,458 p
POPULATION **	91.0	92 6	94 2 r	96.4 r	98.8 r
PER CAPITA GROSS NATIONAL INCOME (P)	117,060.1	117,196.9	123,123.2	130,796.0	141,047 8
LABOR FORCE (Average)					
(In million persons) ***	37.89	38.91	40.00	40.43	41.02
Employed ***	35.06	36.05	37.19	37.60	38.12
Unemployed ***	2.83	2 86	2.81	2 83	2.90
EXCHANGE RATE (per US$) @	46 36	43.88	43.93	41.19	44 41
INFLATION RATE**	2.09%	1.51%	2.72% r	3.20%	2.90%

INSURANCE DEVELOPMENT					
INSURANCE DENSITY	845.4	1,055.6	1,241.5	1,592.0	2,084.0 p
Life Insurance	620 8	807.8	966.4	1,301 6	1,789 1
Non-Life Insurance	224 6	247 8	275.1	290.4	294 9
INSURANCE PENETRATION	1.02%	1.09%	1.20%	1.45%	1.78%
PREMIUMS as % of G N I	0 77%	0.90%	1.01%	1.22%	1 49%
LIFE SUM INSURED as % of G D P	27 41%	25 56%	30 80%	34.85%	31.71% r
LIFE SUM INSURED as % of G N I	20 57%	21 21%	25.78%	29.20%	26.44% r
GROSS VALUE ADDED ON INSURANCE	86,983	99,169	112,946	127,780 r	153,391 p
LIFE INSURANCE COVERAGE	14.08%	16.33%	18.29%	24 43%	32 45% p

* per NSCBs NATIONAL INCOME ACCOUNT (base year 2000)
** NATIONAL CENSUS & STATISTICS OFFICE
*** per DEPARTMENT OF LABOR & EMPLOYMENT
p preliminary figures
r revised figures
@ per CBSP

Source: Key statistical data, 2009-2013, Insurance Commission

Appendix 4: MI-MBA DATA 2007

List of MI-MBAs assisted by RIMANSI as of May 07, 2007

		Date of Licensing	No. of Members In 2007	No. of Individuals Covered
1	CARD MBA	May 22, 2001	275,000	**1,650,000**
2	Rural Bank of Talisayan MBA	Sept. 15, 2007	9,000	**45,000**
3	ASKI MBA	Oct. 10, 2007	36,000	**180,000**
4	KASAGANA KA MBA	April 19, 2007	8,000	**40,000**
5	Ad Jesum MBA	June 2007*	10,000	**50,000**
6	Center for Community Transformation MBA	June 2007*	140,000	**700,000**
7	First Community Credit Cooperative	June 2007*	89,000	**445,000**
8	St. Rosario Credit Development Cooperative	July 2007*	17,000	**85,000**
9	People's Rural Bank of Isabella	July 2007*	25,000	**125,000**
	Totals		**609,000**	**3,320,000**

**Scheduled date of licensing*

Source: Insurance Commission and Microinsurance Innovations Project (MIP) in the Philippines Pre-appraisal Report (July 2007)

Appendix 5: Relevant Legal Pronouncements – according to six key elements

Legal instrument and topic	Content
(1) Definition	
IMC 9-2006 – Microinsurance Regulation and Declaration of Policy Objectives	Defines • microinsurance as "the **insurance business activity of providing specific insurance product**s that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune"; • a "microinsurance product" in terms of the **quantitative limits** of a) daily premium limit of 10 % of the daily minimum wage (PHP 350) of a non-agricultural worker in Metro Manila (resulting in PHP 35 or USD 0.70) b) maximum insurance cover: limit of 500 times the daily wage of a non-agricultural worker in Metro Manila (PHP 175,000 equivalent to USD 3,412.5) • **contract provisions** that are to 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 of, or otherwise not onerous for the insured.
(2) Underwriters and business	
2006: MI-MBAs MC 9-2006 – Microinsurance Regulation and Declaration of Policy Objectives	• Creates a new form of "Microinsurance mutual benefits associations (MI-MBAs)" including the requirements for MI MBA guaranty funds and specific policies. • It also charges the Insurance Commission with designing a regulatory framework for MI MBAs. • 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". • **Policies s**hall clearly identify the face amount, benefits, and terms of the insurance coverage and … 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 is not onerous for the insured.
2012: DOF Department Order 15-2012 (1st June 2012)	Minimum paid-up capital requirement is reduced to 50 % for those having at least 50 % of their production in microinsurance
IMC 1-2010 – Regulation for the Provision of Microinsurance Products and Services	• Defines microinsurance products according to quantitative limits of premium 5 % of daily wage (PHP 404 = USD 9.00) which is PHP 20 = USD 0.44 and the same benefit cap as above (USD 4,268). • 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. • Evaluation of performance of providers based on Performance Standards • Requires the use of the Microinsurance logo in the policy contracts. • Key features of a standard contract (model attached)
2013: Insurance Law, chapter VII	• On Mutual Benefit Organizations • IMC 9-2006 on the MI-MBAs is still valid
(3) Products	
IMC 1-2010 – Regulation for the Provision of Microinsurance Products and Services	• Defines microinsurance products according to quantitative limits of premium 5 % of daily wage (PHP 404 = USD 9.00) which is PHP 20 = USD 0.44 and the same benefit cap as above (USD 4,268). • 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

Legal instrument and topic	Content
	• Defines rules on product bundling. • Evaluation of performance of providers based on Performance Standards • Requires the use of the Microinsurance logo in the policy contracts. • Key features of a standard contract (model attached)
2011: Circular Letter 39-2011 – Re-approval of Microinsurance products	Requires all MI products approved under the IMC No. 9-2006 to be submitted for re-approval to conform to the definition of Microinsurance under IMC 1-2010.
2013: Insurance Law to expand quantitative definition (Section 187)	Microinsurance is a financial product or service that meets the risk protection needs of the poor where: • The amount of contributions, premiums, fees or charges, computed on a daily basis, does not exceed seven and a half percent (7.5%) of the current daily minimum wage rate for nonagricultural workers in Metro Manila (PHP 466 per day = USD 10.80 as of 4/2014) equivalent to a daily premium cap of PHP 35 (USD 0.81) and • (b) the maximum sum of guaranteed benefits is not more than one thousand (1,000) times of the current daily minimum wage rate for nonagricultural workers in Metro Manila (PHP 466,000 = USD 10,764.6)
(4) Agents	
2010: Actors IMC 1-2010 – Regulation for the Provision of Microinsurance Products and Services	• Sets the qualification of entities that can underwrite and **sell** Microinsurance.
2010: Banks' marketing of MI: BSP Circular 683-2010 – Marketing, Sale and Servicing of MI Products	• Sets out **guidelines for banks** that want to sell Microinsurance as agents. • Differentiates banking functions from insurance activities.
2010: Sale of MI products Circular Letter 29-2010 – Sale, Issuance or Distribution of Insurance Products	• Insurance companies and cooperative insurance societies need to ensure that **only authorized/licensed intermediaries**, i.e., agents and brokers, are engaged to sell insurance/MI policies. • In the case of MBAs, MBA insurance products must be issued **only to members.**
2011: Licensing of MI Agents Circular Letter 6-2011 – Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents	• 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.
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."
(5) Dispute resolution	
2013: Circular Letter 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.
2013: Circular Letter 16 to 18-2013 – Guidelines for the Implementation of ADReM for MI by Commercial Companies, Cooperatives and MBAs	• 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.
(6) Supervision	
Performance Standards: Circular Letter 5-2011 – Performance Standards for Microinsurance	Reporting system of all insurers was adjusted in 2010. MBAs and insurers report on SEGURO indicators since 2011.

Appendix 6: Relevant Legal Pronouncements over time

	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. • 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. • Evaluation of performance of providers through a set of Performance Standards • Use of Microinsurance logo in the policy contracts.

	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 (	• 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	• 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	• 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/htm /..%5C_@dmin%5Cupload%5Creports %5CRA10607.pdf#page=3&zoom=auto ,0,515	In terms of microinsurance: • Increases the monetary definition of microinsurance (amount of policy cover and premium) by increasing the 5 % to 7.5 %

Appendix 7: Press Release on New insurance law

Philippine Daily Inquirer (23/08/2013)

President Aquino III has signed into law the bill amending the country's 38-year-old Insurance Code. Finance Secretary Cesar Purisima said the new Insurance Code, which **raises capital requirements for insurers among other reforms,** will pave the way for a stronger insurance sector that can better compete with foreign counterparts.

He said the new Code would help prepare the country's insurers for the integration of member-economies of the Association of Southeast Asian Nations (Asean) by 2015. "We [Department of Finance] welcome the amendment of the 38-year-old Insurance Code which would not only improve the regulation and supervision of the insurance industry but, equally important, propel it to become more competitive in time for 2015 Asean market integration," Purisima told the Inquirer.

Under the new Insurance Code, the **capital requirement** for insurance firms will increase every three years until 2022. The objective of the increases is to ensure that insurance firms have sufficient buffer against risks amid rising demand for financial instruments and a growing economy. The required net worth—defined as the sum of paid-up capital, retained earnings, unimpaired surplus, and revalued assets—is set at P250 million this year, P550 million effective June 30, 2016, P900 million starting June 30, 2019, and P1.3 billion by June 30, 2022.

The new Insurance Code likewise **institutionalizes bancassurance**—the partnership between a bank and an insurance firm that allows sale of insurance products in the bank's branches—and microinsurance activities

As such, Purisima said, the new law will help encourage **more Filipinos to avail themselves of insurance produc**ts, some of which have savings and investment features.

"[The new Insurance Code is expected to] help the insurance **industry become a stronger leg in savings mobilization and capital market development**. Insurance funds, by its long-term nature, are natural sources for infrastructure funding," Purisima said.

The law likewise allows insurance firms **to invest in more financial instruments**. Previously, they could only invest in virtually risk-free instruments, mainly government securities

The law also requires the use of modern, **international accounting standards** in reporting and auditing financial reports of insurance firms.

Insurance Commissioner Emmanuel Dooc earlier said there was a pressing need to amend the law to enhance regulation of the industry.

The law also gives a fixed six-year term to the Insurance Commissioner Dooc earlier this month filed a resignation letter, saying he wanted Malacañang andthe head agency of the IC, to have a free hand in choosing who will head the agency under the new regime. DOF Secretary Purisima said he would suggest to the Palace that Dooc be reappointed to serve the fixed term.

Read more: http://business.inquirer.net/139743/insurance-code-amended-insurers-capital-raised#ixzz2tSyY7cCU

Appendix 8: IC capacity building in microinsurance

IC Technical Committee: The following divisions composed the membership of the MI Technical Committee that was set up in 2011:

(1) Office of the Deputy Commissioner Vida Chiong
(2) Actuarial
(3) Field Examination – Life
(4) Field Examination – Non-Life
(5) Statistics and Research
(6) Regulation, Conservation and Liquidation
(7) Rating
(8) Public Assistance and Information
(9) Pre-Need

The MI Technical Committee had "Terms of Reference" and met once every two months.
Their major outputs were

- Formation of the TWG on ADReM
- ADR Framework on MI launched in October 2012
- ADR Circulars of April 2013
- Supervision and Coordination of the IC technical Assistance from the World Bank/FIRST Initiative on Management Information system which integrated SEGURO MI Performance Standards in the system.

Capacity Building of IC staff came in different forms, including the following:

Participation of technical staffs in the TWG sessions on:

- Regulatory Framework
- National Strategy
- Financial Literacy Roadmap
- Performance Standards
- Chart of Accounts
- Index-based agricultural insurance
- MI product development (prototype non-life and simplifying the policy contracts of life products)
- Health microinsurance

Exposure of Senior IC officers and technical staff through participation in international conferences both in the Philippines and outside (Senegal 2009, Manila 2010, Tanzania 2012 and Jakarta 2012, Berlin 2013).

Various:

- MIPSS conducted orientation seminars wherein almost all technical staff have participated.
- ADB-JPFPR-1 conducted training on SEGURO Performance Standards for all IC technical staff.
- IC staff participated in IAIS FISC Drafting Group meeting of the IAIS issues Paper on Market conduct, distribution and consumer protection (2013)
- -GIZ-MIPSS training for IC staff: Training of trainers on MI advocacy and the roll-out of TOMA in 2011-2012; and Mediation and Conciliation Training 2013

Exchanges with other supervisors in the region: Learning sessions with RFPI-MEFIN countries (Nepal, Thailand, Mongolia, Vietnam, Indonesia and Philippines) in operational planning workshops and symposia.

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