

Making insurance markets work for the poor: microinsurance policy, regulation and supervision

Philippines case study



Date: May 2008

Version 6 (12 January 2009): Final

This document presents the findings from the Philippines component of a five-country case study on the role of regulation in the development of microinsurance markets. The objectives of this project were to map the experience in a sample of five developing countries (Colombia, India, the Philippines, South Africa and Uganda) where microinsurance products have evolved and to consider the influence that policy, regulation and supervision on the development of these markets. From this evidence base, cross-country lessons were extracted that seek to offer guidance to policymakers, regulators and supervisors who are looking to support the development of microinsurance in their jurisdiction. It must be emphasized that these findings do not provide an easy recipe for developing microinsurance but only identifies some of the key issues that need to be considered. In fact, the findings emphasize the need for a comprehensive approach informed by and tailored to domestic conditions and adjusted continuously as the environment evolves.

The project was majority funded by the Canadian International Development Research Centre (www.idrc.ca) and the Bill and Melinda Gates Foundation (www.gatesfoundation.org) along with funding and technical support from the South Africa-based FinMark Trust (www.finmarktrust.org.za)¹ and BMZ² (www.bmz.de). FinMark Trust was contracted to design and manage the project. Together with representatives of the IAIS, the Microinsurance Centre and the International Cooperative and Mutual Insurance Federation (ICMIF) the funders are represented on an advisory committee overseeing the study. The project was undertaken under the guidance of the International Association of Insurance Supervisors (IAIS) and Consultative Group to Assist the Poor (CGAP) Joint Working Group on Microinsurance.

The Philippines case study was conducted by RIMANSI and the Philippine Institute for Development Studies (PIDS).

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We would like to acknowledge the following funders for making this project possible:

¹ Funded by the UK Department for International Development – DFID.

² Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung - Federal Ministry of Economic Cooperation and Development

³ Gilberto M. Llanto is Senior Fellow at the Philippine Institute for Development Studies; Maria Piedad Geron is Consultant at the RIMANSI Organization of the Philippines, Inc.; and Joselito Almario is Director of the National Credit Council of the Department of Finance. The authors would like to acknowledge the assistance provided by Laila Garcia and Luville Marin in the focused group discussions with microinsurance clients, micro-finance institutions and other organizations. Gilberto Llanto acknowledges the insights he drew from his conversations with John Wipf, microinsurance expert.

- International Development Research Centre (IDRC), Canada
- Bill & Melinda Gates Foundation
- FinMark Trust, South Africa
- Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GTZ) and Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung (BMZ), Germany

We would also like to thank the members of the advisory committee for their comments on the draft document and their engagement and guidance throughout the study:

- Jeremy Leach (FinMark Trust)
- Arup Chatterjee (IAIS)
- Craig Churchill (ILO)
- Tammy Durbin (Bill & Melinda Gates Foundation)
- Brigitte Klein (GIZ, former GTZ)
- Michael McCord (Microinsurance Centre)
- Martha Melesse (IDRC)
- Craig Thorburn (World Bank)
- Sabir Patel (ICMIF)
- Martina Wiedmaier-Pfister (GIZ, former GTZ)

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Executive Summary

The Philippines has a strong mutual/cooperative tradition and informal risk pooling and underwriting is common. This, together with the growth of the microfinance industry, has been the driving force behind the development of microinsurance. Besides India, the Philippines is the only sample country where microinsurance is explicitly provided for in the insurance regulatory regime. However, whereas India created concessions for microinsurance on the intermediation side, the Philippines created a special prudential tier (with significantly lower minimum capital requirements) for the underwriting of microinsurance policies and linked this to the allowance for Mutual Benefit Associations (MBAs) in their Insurance Code. Filipino insurance regulation allows a great deal of institutional flexibility for formal insurers – they can be stock companies, cooperatives or MBAs, the latter having to be non-profit in nature. The microinsurance regulations also contain an innovative mechanism to facilitate formalisation of informal insurance operators: microinsurance MBAs who are unable to meet the minimum capital requirements up front, are allowed to increase their capital over time without having to forfeit their registration. Through these regulations, and some public awareness campaigns, the Filipino Insurance Commission triggered a move to formalise the currently informal sector. However, much informal activity remains.

Context

The Philippines has a population estimated at about 88 million people, spread over more than 7,000 islands. 48% of the population resides in urban areas. The World Bank (2007) estimates 44% of the population to live on less than \$2 per day and 14% on \$1 a day or less. During 2007, GDP grew by 7.3%. The Philippines has a relatively sophisticated banking sector and the country has been a pioneer in mobile payments that are accessible to the low-income market⁴. The insurance sector is however less developed, with insurance premiums representing only 1.2% of GDP.

The private microfinance industry has only recently started to grow, after having been crowded out by three decades of government subsidised directed credit programmes. Since the introduction of a National Microfinance Strategy to encourage increased private sector participation in 1997 the market has grown from less than 500,000 to more than 3.6m clients, provided through more than 1400 MFIs.

Salient features of the microinsurance market

Usage. Formal insurance penetration in the low-income market is estimated at about 3.1% of adults. Informal “in-house” insurance is very common within the cooperative sector. Such informal microinsurance is estimated to amount to 2.4% of adults, bringing the total microinsurance penetration to 5.4%⁵.

⁴ Its two m-payments platforms, G-Cash and Smart Money, have between them achieved uptake of an estimated 5.5m customers. In total, Globe Telecom and Smart Communications have more than 45 million cell phone subscribers (about half of the population) (CGAP, 2008).

⁵ No definite statistics exist on the size of the microinsurance market. Therefore an estimate was derived based on the estimated number of microfinance clients with credit life insurance, plus members of microinsurance MBAs, plus an assumption that microinsurance provision outside of the MFI market would amount to the equivalent of 10% of existing microfinance clients (which totalled 3.1m in August

Players. There are 33 life, 94 non-life and 3 composite insurers in the Philippines. Commercial insurers however play only a small autonomous role in microinsurance. Their low-income market activity is mostly limited to credit life insurance provided via the MFI sector. Insurance distributed by MFIs and rural banks⁶ (denoted as “corporate insurance” on the diagram) accounts for 68% of formal microinsurance usage. Mutual insurance, provided by Mutual Benefit Associations (MBAs) also plays an important role. MBAs are intricately linked to the MFI sector. There are currently 18 MBAs, six of which are registered as microinsurance MBAs. All of the latter and most of the former were established by MFIs to serve as a vehicle for providing microinsurance to their clients.

Of the 22,000 operational cooperatives in the Philippines (80% of which are financial cooperatives), about half are estimated to provide some form of insurance to their members through “mutual fund schemes”. These schemes are not licensed by the Insurance Commission. There are only two cooperatives that currently provide insurance formally, both of them registered simultaneously as cooperative service providers with the Cooperative Development Authority, and as life insurers with the Insurance Commission. One, CLIMBS, is registered as an MBA with primary cooperatives as members. These two cooperative insurers therefore act as insurers to networks of cooperatives that essentially serve as distribution agents. The other, CISP has been put under curatorship by the Insurance Commission because of financial difficulties – symptomatic of the generally poor condition of prudential risk management pervasive in the cooperative sector.

Other groups, such as damayan funds, also provide risk-pooling. Since they do not provide guaranteed benefits, their activities fall beyond the definition of insurance.

Products. Compulsory credit life is estimated to account for 49% of microinsurance usage. Within the voluntary market, life insurance⁷ and “casualty insurance” (including disability and health insurance related to accidents⁸) are the most important products. MBAs only provide life and credit life insurance. In the informal (self-insured cooperative) market, life insurance, sometimes with added hospitalisation or accident coverage, is the most common insurance product offered.

Distribution. Microinsurance is distributed largely through MFIs (including rural banks), MBAs, cooperatives and other groups. Individual sales through traditional broker and agent channels are rare. It is only the two cooperative insurers that apply agent-based sales directly to individuals. As they are also registered as cooperative service providers under the Cooperative Development Authority, they target the individuals belonging to their cooperative member networks for such sales. They have their own set of Insurance Commission-licensed agents assigned directly to a

2007). This renders a total figure of 1.7m adults (3% of the population). The informal market was estimated by assuming that it will total 50% of the members of financial cooperatives. This renders an informal market of 1.2m, bringing the total market to 2.9m, or 5.4% of the adult population.

⁶ Note that the largest commercial insurer involved in microinsurance, Country Bankers, was formed by the rural banks to underwrite their credit life policies.

⁷ Note that these life insurance policies are “traditional” life insurance policies, not funeral insurance as found in some other jurisdictions. In the Philippines setting, products targeted at funeral costs are generally provided by pre-need companies.

⁸ This health insurance entails a capital pay-out in the case of a health contingency, rather than covering medical expenses incurred (the traditional meaning of health insurance). The latter is provided outside of the jurisdiction of insurance regulation, by health maintenance organisations regulated by the Department of Health and defined as juridical entities organised “to provide or arrange for the provision of pre-agreed or designated health care services to its enrolled members for a fixed pre-paid fee for a specified period of time” (Department of Health Administrative Order No. 34 dated July 30, 1994).

partner cooperative to market insurance and process the documentation. In the case of CLIMBS, commission is shared between the agent (called an “assurance manager”) and the primary cooperative, which is considered a marketing arm of CLIMBS. For claims processing however, the primary cooperative may deal directly with CLIMBS and opt not to go through the assurance manager. This cuts the claims processing time (CLIMBS promises to pay the claims within 7 days).

Three main market factors drive the development of the microinsurance market:

Microinsurance largely driven by micro-finance development. The development of the micro-finance industry demonstrated the viability of the poor as financial services clients. Increased competition among MFIs has led to the provision of better and expanded services to members. Realising their clients’ need for protection against risks (e.g. death in the family, illness, loss of assets by small businesses, etc), many MFIs started to offer or facilitate the provision of insurance services to clients beyond just credit life insurance. Microcredit also served to create awareness of financial services among the poor and compulsory credit life insurance has familiarised the market with insurance to the extent that spontaneous demand for other types of insurance, such as health and life, is emerging. Moreover, MFI staff and credit processes provide an existing and cost effective channel for selling insurance, premium collection and claims payments.

Role of groups in microinsurance. Microfinance provision in the Philippines is mostly initiated and facilitated through client groups, many of whom are clients of MFIs. The group mechanism is used to grant loans and collect repayments. This group-based mechanism, and clients’ familiarity with it, has lent itself to the formation of MBAs for the provision of insurance to MFI clients.

The role of CARD MBA. The MBA has become the vehicle of choice for insurance provision by MFIs largely due to the experience of CARD MFI, one of the MBA pioneers in the Philippines. CARD initially offered informal insurance to its members. With time, it however realised that this practice was unsustainable and could bankrupt the organisation. Upon advice from the regulator, CARD registered an MBA to rehabilitate its insurance operations and bring it within the formally regulated space. CARD MBA’s subsequent success provided an example to other MFIs that want to cater to the risk protection needs of their members and has been instrumental in the establishment of the tiered regulatory regime for microinsurance MBAs. CARD furthermore plays an important development role in the MFI-MBA sector. Under the Insurance Commission Circular 9-2006, an MBA will only be recognised as microinsurance MBA once it has a minimum of 5,000 clients. Since most MFIs would not yet be large enough, CARD MBA implemented a program called Build Operate and Transfer (BOAT). Under this program, small MFIs’ members are initially insured with CARD MBA, though enrolment, documentation and processing of claims are lodged within the MFI. CARD also provides technical assistance. When the necessary scale is reached, the MFI can register an MBA and fully handle its own insurance.

The insurance policy, regulation and supervision landscape

Insurance in the Philippines is regulated under the Insurance Code (Presidential Decree No. 1460) of 1978, with the Insurance Commission as regulator and supervisor. Insurance is however also provided outside of the regulatory mandate of the Insurance Commission, through guaranteed-

benefit pre-need plans⁹ and health insurance contracts. Pre-need plans are regulated by the Securities and Exchange Commission, whereas health insurance contracts are provided by health maintenance organisations (HMOs) regulated by the Department of Health. There are discussions in Congress to bring these institutions under the authority of the Insurance Commission.

Prudential and institutional regulation. The Insurance Code identifies four types of insurers: life insurers, non-life insurers, composite insurers and mutual benefit associations. The Code allows cooperatives providing insurance (registered under the Cooperative Development Authority but not extensively supervised in practice) to also register for insurance purposes, but only two cooperatives (out of thousands providing in-house insurance) have done so. A life insurance provider may organise itself either as a stock corporation or a mutual life company¹⁰.

An important characteristic of prudential and institutional regulation in the Philippines is the fact that it allows for a tiered minimum capital regime. In effect, five tiers are created:

- Under Circular 2-2006, minimum capital requirements were raised to Php 1bn (\$24m) for new **life and non-life insurers** and double that for composite insurers. This is up sharply from the \$1.2m previously required of commercial insurers.
- The Insurance Commission has the discretion to reduce this requirement by up to half for **cooperatives**, but thus far no cooperatives have applied for registration under this condition, as specific guidelines for the implementation of this provision of the cooperative code have not yet been formulated.
- **Existing MBAs** must hold capital of \$305,000 (Php12.5m), a very sharp increase from the minimal capital requirement previously in place (Php10,000).
- This increase is even more pronounced for **new MBAs**. They must now hold capital of about \$3m (Php125m).
- **Microinsurance MBAs** (see the discussion of this category below) must hold capital of \$122,000 (Php5m) that must be phased up over time to the level of existing MBAs. It is the only category for which such graduation is allowed¹¹.

Product regulation. Insurance is demarcated into life and non-life, but composite products are allowed under certain circumstances, depending on the institutional form:

- **Commercial insurers** (stock companies) may either provide life or non-life exclusively, or apply for a composite license, in which case they can provide both categories. As discussed, health care plans fall outside the jurisdiction of the Insurance Commission. Yet life and non-life insurance can include health insurance related to accidents

⁹ "Pre-need plan" is the term used in the Philippines for an endowment insurance product, for example an education savings plan that promises to pay out a certain amount at a certain time in future in exchange for a monthly premium.

¹⁰ A stock corporation is owned by shareholders while a mutual life company is owned by policyholders.

¹¹ The graduation option is allowed for under Circular 9-2006 (microinsurance circular), rather than Circular 2-2006 as the rest of the tiers.

- **Cooperative** insurance societies registered with the Cooperative Development Authority and also licensed by the Insurance Commission may provide both life and non-life products.
- **MBAs** may only provide life insurance. It is counterintuitive that MBAs, even though they are the main vehicle for microinsurance and the microinsurance regulations define both life and non-life microinsurance products (see below), are indeed subject to the strictest demarcation. This may be due to the fact that the Microinsurance Circular could not override the Insurance Code that was passed long before microinsurance came on the horizon.

Market conduct regulation. Insurance may only be distributed through licensed agents or brokers. They could be individuals or companies/organisations (in which case the company has to provide the specific list of persons or individuals who may act on its behalf). Brokers and agents are required to take a written examination prior to authorisation and are required to explain the nature and provisions of the contract to their clients, particularly the minimum disclosure requirements printed in the insurance policy contract. No commission caps are imposed. Under banking regulation, an insurance company allied with a bank is allowed to sell insurance products to that bank's clients within the premises of the bank (bancassurance)¹². This is however not allowed for rural banks. In practice, the traditional broker and agent channel is not applied in microinsurance. Only the two cooperative insurers use individual agent selling, and even there, they only do so within their own network of member cooperatives, in partnership with such member cooperatives. For the rest, the MFI either enters into a partnership with an insurer for the distribution of insurance to its members, or a licensed agent of the commercial insurance company sells a group insurance policy to the MFI or rural bank.

Financial inclusion policy and regulation. In line with government's financial inclusion objective, the Insurance Commission in 2006 issued Memorandum Circular No. 9-2006 to encourage the provision of microinsurance. It defines microinsurance as insurance (life and non-life) aimed at mitigating the risks of the poor and disadvantaged. It is defined in terms of maximum premium (of about \$25.5¹³ per month) and maximum benefits (of approximately \$4000) for life insurance only (no benefit caps apply to non-life microinsurance policies that are included in the microinsurance category). It also stipulates that policies must clearly set out all relevant details, must be easy to understand and must have simple documentation requirements. Premium collection must coincide with cash flow of/not be onerous to the target market. Although any registered insurer can offer microinsurance products, the regulatory concessions created in the circular apply only to microinsurance MBAs. An MBA can be recognised as microinsurance MBA if it only provides microinsurance and has more than 5,000 member-clients. As described above, microinsurance MBAs are allowed to hold reduced minimum capital vis-à-vis new MBAs (the same as existing MBAs). If they are unable to comply with this, an even lower amount is allowed, but they must increase their capital at a rate of 5% of gross premium collections per year until they reach the required minimum capital. Furthermore, the Circular requires the establishment of a set of performance standards, tailored to the capacity and activities

¹² Section 20 of Republic Act No. 8791, otherwise known as the General Banking Law (GBL) of 2000, allows a bank, subject to prior approval of the Monetary Board, to use any or all of its branches as outlets for the sale of other financial products, including insurance, of its allied undertaking. Under BSP Circular No. 357, Series of 2002, this is applicable only to universal and commercial banks, not to rural banks.

¹³ Exchange rates taken from www.oanda.com on 11 March 2008. Actual limits for the microinsurance definition are set not in absolute monetary terms, but relative to a multiple of the daily minimum wage.

of microinsurance MBAs, to evaluate, amongst others, their solvency, governance and risk management.

Impact of policy, regulation and supervision on the market

Regulation shapes the microinsurance market in the Philippines in a number of ways:

A “market-following” approach of monitoring market trends and tailoring regulation accordingly. The Insurance Code confers wide powers on the Insurance Commissioner to issue circulars in response to changing market conditions. This allows the Commission to provide the insurance industry sufficient latitude to innovate and to issue regulatory measures that consider and accommodate such innovations. This is in line with the stance taken in Filipino financial sector regulation more broadly.

Impact of financial inclusion policy. The National Microfinance Strategy has had a dramatic impact on the growth of the microfinance industry. This triggered credit life expansion and the growth of the MBA vehicle that in turn paved the way for the implementation of the Insurance Commission circular defining microinsurance and setting out a tiered prudential structure favouring microinsurance MBAs. However, to date, unlike the approach in India and South Africa, government’s financial inclusion policy does not extend to the encouragement of large commercial insurers to reach into the low-income market, except to sell group credit life policies to MFIs and rural banks. Commercial insurers enjoy neither capital nor market conduct concessions to market microinsurance products and the Philippines has therefore seen only a few instances of innovation by large insurers focused on the low-income market¹⁴. On the contrary, the dramatic increase in their minimum capital requirements (from \$1.2m to \$24m) has arguably discouraged experimentation in the low premium market.

Tailored regulatory space facilitates microinsurance, but with limitations. The microinsurance circular (Circular 9-2006) carved out a space for dedicated microinsurance MBAs in the Philippines. This approach has proven conducive to microinsurance development (with six microinsurance MBAs already registered and more being prepared for registration). The provision allowing MBAs who cannot meet the minimum capital requirements to register and then grow their capital over time, is proving useful to formalise insurance operations that were previously conducted in an informal and unsupervised manner. Microinsurance MBAs, however, remain unable to underwrite non-life and health products, thereby limiting their ability to extend their product range in line with the needs of their clients, unless they obtain underwriting by large commercial insurers.

A lack of effective supervision over all insurance-type products undermines microinsurance market development. Though two popular product types in the Philippines, pre-need and health care plans, both constitute “insurance”, these products fall outside of the jurisdiction of the Insurance Commission. This implies that differing rules and regulations are applied to various insurance products. This has created confusion in the market, as was apparent from the focus group interviews, where people indicated that they were hesitant to buy any insurance due to a recent failure of a large pre-need company to meet its obligations. Furthermore, a lack of enforcement of

¹⁴ It is reported that the Insurance Commission has to date approved five microinsurance products provided by commercial insurers. Therefore, the definition of microinsurance in terms of premium and benefit limits did to some extent provide a benchmark for commercial insurers to create innovative products that would be affordable to the poor.

the provisions of the Cooperative Code has led to the proliferation of “in-house” insurance schemes among cooperatives not licensed to provide insurance under the Insurance Code. These in-house insurance schemes are not subject to actuarial evaluations and therefore create risks for their members. More than 65% of total cooperatives registered with the Cooperative Development Authority are no longer operating due to mismanagement, governance issues and more importantly, the lack of rules and regulations.

Inability of rural banks to sell insurance products within bank premises. Most rural banks are situated in the countryside and about 25% of these banks are engaged in the delivery of microfinance services to poor clients. Given their proximity to the poor, rural banks have the potential to be effective channels for widespread delivery of micro-insurance products. However, this potential cannot be exploited at present since only universal and commercial banks (that are usually situated in urban areas) are allowed to sell other financial products (that includes insurance products) on their premises. As a result, rural banks resort to taking group credit life insurance policy contracts with commercial insurers to cover their loan exposure to bank clients. At present, very few microfinance clients of rural banks have therefore availed of insurance products other than credit life.

Conclusion: insights and lessons from the Philippines

Microinsurance in the Philippines is fundamentally group-based and largely microfinance driven. It illustrates how MFI-based microinsurance can evolve beyond the provision of credit life insurance to also provide life, accident and capital health insurance to members. The provision of microinsurance by commercial insurers outside of the MFI realm however remains underdeveloped and the fact that total microinsurance penetration is estimated at less than 6% of adults indicates much scope for further expansion.

Despite some remaining obstacles (such as the proliferation of in-house cooperative insurance, the fact that pre-need and health plans fall outside of the Insurance Commission’s jurisdiction and the inability of rural banks to provide bancassurance), a number of policy and regulatory aspects bode well for the growth of microinsurance. Financial inclusion policy, in the form of the National Microfinance Strategy, has contributed to the development of the microfinance and hence microinsurance sectors. The Insurance Commission takes a reactive, “market-following” approach that encourages innovation. In this way, it has adopted a risk-based supervision approach. The challenge to such an approach is that it requires ongoing management to monitor risks, which may imply challenges to the capacity of the regulator. Most importantly, the Philippines presents one of only two current examples where microinsurance has explicitly been included in the insurance regulatory regime. The microinsurance concessions are however limited to MBAs that are willing to exclusively provide microinsurance and have reached a certain level of scale. Whilst commercial insurers may also offer products that fall within the definition, there are no regulatory concessions applicable to them.

1. Introduction

This document presents the findings from the Philippines component of a five-country case study on the role of regulation in the development of microinsurance markets. The objectives of this project are to map the experience in a sample of five developing countries (Colombia, India, the Philippines, South Africa and Uganda) where microinsurance products have evolved and to consider the influence of policy, regulation and supervision on the development of these markets. From this evidence base, cross-country lessons are extracted that seek to offer guidance to policymakers, regulators and supervisors who are looking to support the development of microinsurance in their jurisdiction. It must be emphasized that these findings do not provide an easy recipe for developing microinsurance but only identify some of the key issues that need to be considered. In fact, the findings emphasize the need for a comprehensive approach informed by and tailored to domestic conditions and adjusted continuously as the environment evolves.

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Rationale for the study

Low income households find it hard to cope with the risks brought about by an illness or injury, death of a family member, man-made calamities and natural disasters. These events when they do happen have a devastating effect on those poor households' cash flow, liquidity and earning capacities and thus, on household welfare.

As the microfinance industry in the Philippines grows, an increasing number of microfinance institutions (MFIs) face a growing demand from their clients for financial products and services including risk protection services. Demand for micro-insurance products is growing in view of continuing risks to household welfare and the seeming inability of the government to address this issue. The MFIs have realized the need to assist their clients, consisting mostly of poor households and microenterprises with financial products such as micro-insurance schemes that will help them manage those risks. A number of those MFIs have started with informal means of risk protection, some have linked up with commercial insurance companies to deliver insurance products to their clientele and still others have established Mutual Benefit Associations (MBAs), a form of insurance organization licensed by the Insurance Commission (regulator) to deliver insurance services to poor households and microenterprises.

¹⁵ Funded by the UK Department for International Development – DFID.

¹⁶ Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung - Federal Ministry of Economic Cooperation and Development

This study seeks to provide a better understanding of the micro-insurance market in the Philippines and to draw certain principles for micro-insurance regulation from a review of the Philippine experience with micro-insurance. The study describes how policies, legal, regulatory and supervisory framework governing insurance have shaped the development of the market and vice versa. The Philippine experience on the provision of micro-insurance services and the interaction between the insurance providers and the regulator may help inform the development of certain principles for micro-insurance regulation.

The country study is timely and relevant considering the growing number of vulnerable households seeking such risk-protection products and the willingness of MFIs and other institutions to design and sell micro-insurance products to poor households and microenterprises. For its part, the Philippine government has made the provision of micro-insurance as a component of its poverty reduction strategy. The government's Medium-Term Philippine Development Plan 2004-2010 speaks of preferential access by the disadvantaged sector to social protection, safety nets and financial services such as micro-finance. The same Plan also specifies the government's role to provide an enabling environment for private business to create jobs and output required by the economy. The results of the study will be helpful to the Insurance Commission and Department of Finance in crafting a regulatory framework that encourages the provision of micro insurance by the private sector using various delivery channels.

The study is organized into seven sections. **Section 2** sets out the analytical framework applicable to the study. **Section 3** gives an overview of the insurance industry in the Philippines. **Section 4** describes the existing regulatory environment for insurance in general and micro-insurance in particular. It lists and analyzes the various provisions of existing laws, circulars and policies that affect the delivery of insurance services to the poor. **Section 5** then discusses the existing market for micro-insurance with specific focus on how this has evolved given the existing policy, regulatory and supervisory framework for micro-insurance services. **Section 6** identifies the regulatory and the non-regulatory drivers of the micro-insurance market while **Section 7** summarises and concludes.

2. Analytical framework

This study applies a number of lenses to the evolution of microinsurance markets in the five countries. These lenses, collectively referred to as the analytical framework, in turn inform the synthesis of drivers and findings in the cross-country report. The full analytical framework is contained in Appendix 1. It covers:

- The financial inclusion framework
- The goal of microinsurance, namely increased welfare for the poor through risk mitigation to reduce vulnerability.
- The definition of microinsurance, namely insurance managed according to insurance principles, in exchange for a premium, that is accessed by or accessible to the low-income market.
- The parts of the insurance value chain covered, including underwriting, administration and intermediation/distribution.
- The distinction between formal and informal insurance and intermediation.

- The categories of risk identified, namely prudential risk, market conduct risk and supervisory risk.
- A typology of public policy instruments, namely policy, regulation and supervision.
- An overview of the insurance regulatory scheme (most notably financial inclusion policy or regulation, prudential regulation, market conduct regulation and institutional regulation)

Please refer to Appendix 1 for a detailed analysis of each of these areas.

2.1. Methodological approach

The **structure** of the analysis is as follows:

- *Understanding the microinsurance market.* The microinsurance market is described in terms of: (i) the various players (corporate and mutual/cooperative, formal and informal) active in the low-income market; (ii) the products available and any low-income market product innovations; (iii) usage among the low-income population of formal and informal insurance products; as well as (iii) distribution channels employed in the low-income market and any distribution innovations. These findings are used to conclude on the key characteristics of the microinsurance market. Focus group research was used to identify the need for and understanding of insurance among the target market. This included an investigation into the risk experience, provider, product and channel preferences of the focus group participants, as well their trust in the insurance market in general.
- *Understanding the insurance regulatory framework.* Furthermore, the study gives an overview of the insurance regulatory framework, in general and as pertaining to microinsurance.
- *Drivers of microinsurance.* In light of the above, it seeks to draw out respectively the non-regulatory (market, macroeconomic and political economy context-related) and regulatory drivers of the state of microinsurance. These drivers are synthesised in the cross-country document.
- *Conclusion.* The drivers are used as the basis for highlighting conclusions on the development of the market, the impact thereon of regulation and other factors and the way forward for microinsurance policy, regulation and supervision.

The **methodology** consisted of desktop research as well as consultations with industry role players, regulators, supervisors and other stakeholders. It involved:

- Traditional **demand and supply mapping.** Secondary data from the Insurance Commission as well as published reports on the insurance industry were used to determine the status of the insurance industry in the Philippines. Key informant interviews were conducted among mutual benefit associations (MBAs), as well as microfinance institutions (MFIs) that have developed “micro-insurance” or “quasi-insurance” schemes for the risk protection of the MFIs and their clients. The federations of cooperatives and cooperative societies were likewise interviewed regarding the provision of insurance to their members.

- **Qualitative focus group research** of the current and potential clients of MBAs and MFIs that offer micro-insurance schemes. The authors also analyzed data from the market demand studies conducted by the Center for Agriculture and Rural Development (CARD) and RIMANSI Organization of the Philippines, Inc. (RIMANSI).
- **Regulatory and policy analysis**, for which the following interviews were conducted:
 - The Commissioner and personnel of the Insurance Commission regarding future plans and directions of the Commission in terms of regulating and supervising the insurance industry in general and the micro-insurance sector in particular;
 - Key technical staff of the Insurance Commission involved in the supervision of insurance companies regarding insurance supervision and examination procedures to determine any bias against the provision of micro insurance or procedural guidelines that inhibit if not prohibit the provision of micro insurance;
 - Key technical staff of the Insurance Commission and the Cooperative Development Authority regarding issuances as well as specific activities conducted with regards to the supervision and examination of cooperative societies providing insurance services;
 - Key officials of the Insurance Commission and the Cooperative Development Authority (Board of Administrators) regarding future plans and directions in regulating the provision of insurance.
- Controlling for **context** and the distinctive evolution of the broader insurance market

2.2. Project scope

The scope of the study covers all life and non-life insurance products targeted at the low-income market, including savings products provided by insurers (endowments) where it includes an element of guarantee. Pure savings products and retirement savings products are excluded from the scope of the study, as is government social welfare and social security provision.

While capital health insurance products are considered, indemnity health insurance was excluded from the scope of the study. Indemnity health insurance is an extremely important product for the low-income market but requires a dedicated study as it is often regulated and supervised differently to other insurance business and is a complex field, intricately linked to health service provision.

The study covers all categories of providers and intermediaries, including informal markets.

3. The insurance industry in the Philippines

3.1. Overall industry performance

In general, Philippine households spend only a measly percentage of their income on insurance. In 2005, per capita expenditure on insurance was reported to be only less than a thousand pesos (Php 750.70 or US \$ 18). Three-fourths of this amount was used to buy life insurance while the remaining

one-fourth was used to buy non-life insurance products. This shows the overall preference of households for life and non-life insurance (Table 1).

Insurance penetration and density are common measures of the level of insurance provision and uptake in a country, albeit imperfect ones. Insurance penetration is defined as the total premiums divided by GDP. It measures the importance of insurance activity relative to the size of the economy; hence it can be a rough indicator of growth potential. Insurance density is defined as the amount of premiums per capita. It corresponds to the average amount spent on insurance by each person and signifies the current state of the industry. Insurance penetration in the Philippines was slightly more than 1 percent from 2002-2006 while insurance density ranged from US\$ 15 to US\$ 20 in 2002-2006. The Philippines compares poorly with Thailand, India, and Malaysia, but is slightly better than Vietnam, Indonesia, and Pakistan. In short, the growth of the Philippine insurance industry is not keeping pace with economic growth.

Market penetration represented by the number of life insurance in force to the total population (estimated life insurance coverage) declined from 12.96 percent in 2005 to only 12.13 percent in 2006. This is a marked decline from about 18.3 percent in 2003. Given these indicators, one can conclude that there is a significant room for growth of the insurance market in the country.

INSURANCE DEVELOPMENT (Private Companies Only)					
Per capita expenditure (₱)	622.3	676.8	726.2	750.7	846.5
Life	456.6	496.4	533.3	550.8	637.3
Non-Life	165.7	180.4	192.9	199.9	209.2
Life sum insured as % of G D P	41.94%	47.61%	38.56%	27.33%	26.93%
G N P	39.36%	44.37%	35.79%	25.26%	24.73%
Premiums (Life & Non-Life)					
as % of G D P	1.25%	1.25%	1.21%	1.16%	1.20%
G N P	1.17%	1.16%	1.13%	1.07%	1.11%
Gross value added on insurance	35,567	37,541	45,699	47,449	53,741
ESTIMATED LIFE INSURANCE COVERAGE	13.65%	18.30%	13.07%	12.96%	12.13%

Table 1. Insurance Development in the Philippines¹⁷

The Insurance Code of the Philippines identifies four types of insurers, these are: life insurance providers, non-life insurance providers, composite providers and mutual benefit associations. As of December 2006, the Philippine insurance industry is composed of 130 insurance companies (3 composites, 33 life and 93 non-life companies, as well as 1 reinsurer) and 18 mutual benefit associations (Table 2).

¹⁷ Annual Insurance Report, 2005

Classification of Company	Direct Insurers			Professional	TOTAL
	Composite	Life	Non-Life	Reinsurers	
A. Domestic	2	25	83	1	111
B. Foreign					
Domestically Incorporated	1	7	5	-	13
Branch	-	1	5	-	6
Total	3	33	93	1	130

Table 2. Companies Authorized to Transact Insurance Business In the Philippines, As of December, 2006

Source: Annual Insurance Report, 2006; Insurance Commission

From 2004 to 2005, the insurance industry posted only a 6.6% growth in combined life and non-life insurers' net premiums. The life and non-life sectors realized a net premium growth of only 6.6% and 5.9%, respectively, over 2004 levels. This is comparatively lower than the almost 10% growth in net premiums from 2003 to 2004. As indicated in the previous section, this translates to only a little over one percent of the country's gross domestic product indicating a low volume of insurance activity in the whole economy. Table 3 shows industry growth indicators.

	2005 (Php billions)	2004 (Php billions)	% increase
Net Premiums	64.04	60.05	6.64%
Life	46.99	44.10	6.55%
Non-life	15.93	15.04	5.92%
Prof. Reins	1.12	0.91	23.08%
Assets	349.61	311.02	12.41%
Life	273.57	240.04	13.97%
Non-life	69.94	66.25	5.57%
Prof. Reins	6.10	4.73	28.96%
Investments	255.86	226.54	12.94%
Life	217.51	192.57	12.95%
Non-life	34.86	31.44	10.88%
Prof. Reins	3.49	2.53	37.94%

Table 3. Industry growth indicators, 2004-2005

Source: Insurance Commission Annual Report, 2005

During the last five years, there was only one life insurance company that closed its operation. There are however foreign companies that sold their insurance portfolio business to local companies such as the Berkley to Phil Prudential Life and the Manila Bankers Life to Paramount Insurance. With respect to MBAs, there were two associations that liquidated their operations and at present, three are under conservatorship.

4. The regulatory framework for the insurance industry in the Philippines

Unlike other countries that have a plethora of laws and other types of legal issuances on insurance, the Philippines has the good fortune of having a comprehensive Insurance Code that provides the legal foundation or framework for the regulation and supervision of insurance companies and product offerings. Specific provisions of the Insurance Code and the rules and regulations issued by the Insurance Commission under various Circulars provide the general policy and regulatory framework for the provision of insurance per se.

In the Philippine setting, only insurance contracts with guaranteed benefits are covered by the Insurance Code. For this purpose, the Insurance Code defines a contract of insurance as “an agreement whereby one undertakes for a consideration to indemnify another against loss, damage or liability arising from an unknown or contingent event.” Risk pooling arrangements where benefits are not guaranteed and are based on the total amount of contributions collected at the time of need, are not covered by the Insurance Code (such as Damayan Funds¹⁸).

However, there are also some types of financial products such as pre-need and health plans that have guaranteed benefits but do not fall under the jurisdiction and regulation of the Code. Pre-need plans that cover, for example, pension, education and interment plans are regulated by the Securities and Exchange Commission¹⁹. The SEC defines pre-need plans as “contracts that provide for the performance of future service/s or payment of future monetary consideration at the time of actual need, payable either in cash or installment by the plan-holders at prices stated in the contract with or without interest or insurance coverage and includes life, pension, education, interment and other plans which the Securities and Exchange Commission may from time to time approve.” Paid-up capital requirement for a pre-need company amounts up to Pesos 100 million (US\$2.4 million)²⁰. There are currently 27 operating pre-need companies. There is a pending bill in the Senate transferring the pre-need sector to the regulatory ambit of the Insurance Commission.

On the other hand, health “insurance contracts”²¹ are provided by Health Maintenance Organizations (HMOs) that are registered with the Securities and Exchange Commission and are

¹⁸ “*Damayan*” is a Filipino word that means “to console,” “to empathize with the other” or “to be a part of” a certain unfortunate or unforeseen event. This comes from the local practice of helping one’s neighbor who might be in great need. As a matter of practice, each individual in a Damayan Fund voluntarily pledges and contributes a certain amount to a fund that will be given to the aggrieved party who is likewise a contributor to the fund. Membership to the fund is voluntary and the benefits are not pre-determined but are contingent on the funds collected.

¹⁹ Under Section 16 of the Securities Regulation Code of 2000, “no person shall sell or offer for sale to the public any pre-need plan except in accordance with rules and regulations which the (Securities and Exchange) Commission shall prescribe. Such rules shall regulate the sale of pre-need plans by, among other things, requiring the registration of pre-need plans, licensing persons involved in the sale of pre-need plans, requiring disclosures to prospective plan holders, prescribing advertising guidelines, providing for uniform accounting system, reports and record keeping with respect to such plans, imposing capital, bonding and other financial responsibility, and establishing trust funds for the payment of benefits under such plans.”

²⁰ SEC Memorandum Circular No. 4, dated April 30, 2002.

²¹ “*Health insurance contracts*” is a form of insurance agreement where individuals pay premiums to help cover themselves from future healthcare (such as hospitalization, medicines and professional fees) services.

regulated by the Department of Health²². The health maintenance organization acts as both insurer and provider of a defined package of medical services with no out-of-pocket cost since these services have been prepaid.²³ As of December 31, 2005, there are seventeen (17) DOH-licensed HMOs in the country.

Both pre-need plans and health insurance plans are technically insurance products because they carry guaranteed benefits as stated in the contracts that pre-need and health maintenance companies issue to buyers. It is unfortunate though that at present, these institutions are not within the regulatory and supervisory ambit of the Insurance Commission. There are current discussions in Congress, however, about putting these institutions under the Insurance Commission.

4.1. The Insurance Code of the Philippines

The framework for the regulation of insurance business in the Philippines is provided by Presidential Decree No. 612 (also known as the Insurance Code of the Philippines) which was issued on December 18, 1974. This was amended by Presidential Decree No. 1460 (also known as the Insurance Code of 1978) which took effect on June 11, 1978. As mentioned in the previous section, only insurance contracts with guaranteed benefits are covered by the Insurance Code while risk pooling arrangements (such as Damayan funds) where benefits are not guaranteed, are not covered.

The Insurance Code requires all insurance providers, regardless of type and ownership structure, to secure a certificate of authority from the Insurance Commission before they can engage in an insurance business activity. Except for cooperatives that are mandated by law to register with the Cooperative Development Authority, all entities doing business in the Philippines, including insurance companies, should generally be registered with the Securities Exchange Commission (SEC). Before undertaking any kind of insurance business activity, however, duly registered entities are required to secure a certificate of authority from the Insurance Commission either as a life or non-life insurance company or as re-insurer.

The Insurance Code sets the specific parameters and conditions by which the Insurance Commission may grant license to entities that intend to engage in the insurance business in the Philippines. The Insurance Commission then issues guidelines, prudential rules and regulations covering the operations of insurers to ensure that these entities will be able to provide the guaranteed benefits due to the policy holders as indicated in the insurance policy contracts.

The major provisions of the Insurance Code covers the following:²⁴

- Types of insurance products that a registered insurer may provide depending on the license that was applied for and granted by the Insurance Commission;

²² Department of Health (DOH) Administrative Order No. 34 dated July 30, 1994 (Rules and Regulations on the Supervision of Health Maintenance Organizations). Under this AO, HMOs are juridical entities organized "to provide or arrange for the provision of pre-agreed or designated health care services to its enrolled members for a fixed pre-paid fee for a specified period of time."

²³ Alfiler, M.C., 1992: Philippine Institute of Development Studies, Working Paper Series No. 92-07 Prepaid Managed Health Care: The Emergence of HMOs as Alternative Financing Schemes in Philippines

²⁴ Ibid

- Criteria, particularly the minimum capitalization, for the granting of the license and the documentary requirements needed for registration and licensing;
- Reserve requirements for insurance products/services rendered;
- Ownership structure of the insurer and the qualifications of persons that may engage in the insurance business;
- Qualifications for licensing of agents and brokers;
- Form, terms and conditions of a legitimate insurance or policy contract and procedures for settlement of claims and determination of unfair claims practices;
- Rules governing reinsurance transactions; and
- Conditions for suspension and revocation of license, appointment of conservator, proceedings upon insolvency, and merger, consolidation and mutualization of insurance companies.

The Code also specifies the margin of solvency that must be maintained by any insurance organization. The allowable investments as well as the limits on risks faced by an insurance business are also specified in the Insurance Code.

4.1.1. Demarcation

Section 184 of the Insurance Code defines an “insurer” or “insurance company” to include all individuals, partnerships, associations, or corporations, including government-owned or controlled corporations or entities, engaged as principals in the insurance business, excepting mutual benefit associations. This definition shall also cover professional reinsurers

MFIs (banks, cooperatives and microfinance non-government organizations) are not allowed to underwrite insurance policies without any specific authority from the Insurance Commission. Universal banks however, may invest in allied undertakings (including insurance) through their subsidiaries provided they are allowed by the Bangko Sentral ng Pilipinas and licensed by the Insurance Commission.

The Insurance Commission classifies insurance providers into four (4) broad types of categories: 1) life insurance provider; 2) non-life insurance provider; 3) composite insurance provider²⁵; and 4) mutual benefit associations. Except for the capitalization requirements, licensing and compliance requirements are the same for all insurance companies.

A life insurance provider may organize itself either as a stock corporation or a mutual life company²⁶. Under Section 262 of the Insurance Code, any domestic stock life insurance company doing business

²⁵ Entities licensed by the Insurance Commission to undertake both life and non-life insurance activities.

²⁶ A stock corporation is owned by the owners of the shares of the capital stock of the corporation while a mutual life company opens the ownership of the company to the policy holders. In a mutual life company, outstanding shares of the capital stock of the company may be acquired by the policyholders.

in the Philippines may convert itself into an incorporated mutual life insurer. To that end it may provide and carry out a plan for the acquisition of the outstanding shares of its capital stock for the benefit of its policyholders, or any class or classes of its policyholders.

Separate provisions are applicable for Mutual Benefit Associations and for Cooperative Insurance Societies as they are both considered as non-stock, non-profit organizations. Under the Insurance Code, an MBA is “any society, association or corporation, without capital stock, formed or organized not for profit²⁷ but mainly for the purpose of paying sick benefits to members, or of furnishing financial support to members while out of employment, or of paying to relatives of deceased members of fixed or any sum of money. . .” and it shall not, in any way, “be organized and authorized to transact business as a charitable or benevolent organization. . .”²⁸ It further states that MBAs shall collect fixed and regular premiums from its members and in no case shall premium payments be collected purely from voluntary contributions and/or no fixed amount. These particular provisions help ensure that the MBAs shall be sustainable insurance institutions able to meet its obligations with regard to life insurance policy contracts with their insured members²⁹.

On the other hand, the Cooperative Code allows cooperatives to organize themselves into a cooperative insurance society for the purpose of covering the insurance requirements of their cooperative members including their properties and assets. Cooperative insurance societies may provide its constituting members different types of insurance coverage consisting of, but not limited to, life insurance with special group coverage, loan protection, retirement plans, endowment with health and accident coverage, fire insurance, motor vehicle coverage, bonding, crop and livestock protection and equipment insurance.³⁰ Once registered with the Cooperative Development Authority, cooperative insurance societies are still required to get a license from the Insurance Commission either as life or non-life insurer or as a composite insurance provider.

The Cooperative Code grants cooperative insurance societies the authority to provide its members a wider variety of insurance products. However, the law is more stringent when it comes to the statutory requirements for licensing cooperative insurance societies as against that required for MBAs since the former may provide both life and non-life insurance products.

Section 117 of the Cooperative Code provides that the Insurance Code and all other laws and regulations relative to the organization and operation of an insurance company shall likewise apply to cooperative insurance entities. Although the requirements on capitalization, investments and

²⁷ Just like cooperatives, MBAs treat their profit as net surplus construed as excess of payments made by the members for the services bought by them over expenses incurred and which shall be deemed to have been returned to them as dividends or patronage refunds.

²⁸ Section 390, Insurance Code of the Philippines, as amended. It may seem contradictory that an MBA should not be organized “for profit” and at the same time not a “charitable or benevolent organization.” As stated in footnote 13, excess surplus that MBAs earn out of their operations are returned back to their members either as interest on share capital or patronage refund and are therefore not treated as “profits”. Hence, MBAs are not “for profit” organizations. MBAs are also not considered “charitable or benevolent organization”, since MBAs must sustain their operations from the insurance premiums that they collect. MBAs are therefore required to collect fixed and regular premiums to cover “guaranteed” benefits. Unlike “charitable or benevolent” organizations, MBAs operations are not dependent on donations and grants

²⁹ It must be noted that MBAs are only authorized to transact life insurance business transactions.

³⁰ Chapter XV, Cooperative Code of the Philippines.

reserves of insurance firms may be modified by the Insurance Commission upon consultation with the Cooperative Development Authority and the cooperative sector, such requirement shall not be “less than half of those provided for under the Insurance Code and other related laws”.³¹

4.1.2. Capital and Investment Requirements

The authority to set minimum capital requirements for insurance companies or entities is vested upon the Insurance Commission. Section 186 of the Insurance Code provides that before any person, partnership or association can transact business in the Philippines, it must possess the capital and assets required and it must obtain a certificate of authority from the Insurance Commission. Section 188, on the other hand, specifies the capital requirement before an entity is granted the certificate of authority.

Previously, regulations require that to put up a life insurance entity, capitalization should not be less than Pesos 50 million (US\$1.2million). For non-life insurers, capitalization should also not be less than Pesos 50 million (US\$1.2). To provide both life and non-life insurance, capitalization requirement is doubled and should not be less than Pesos 100 million (US\$2.4 million).

Minimum capital requirements were adjusted in 2006 to ensure that insurance companies are sufficiently capitalized to meet their obligations. On May 15, 2006, the Insurance Commission issued a memorandum circular requiring all new life and non-life insurance entities to put up a capitalization of not less than Pesos 1 billion (US \$24 million) of which at least 50 percent consists of paid up capital and the remaining amount in contributed surplus, which, should not be less than Pesos 200,000 (US \$4878)³². To provide both life and non-life insurance, capitalization requirement is doubled and should not be less than Pesos 2 billion (US \$48 million).

On the same date, the Insurance Commission also issued a memorandum circular requiring all new MBAs and all MBAs seeking rehabilitation to put up at least Pesos 125 million (US \$3 million) guaranty fund.³³ Existing mutual benefit association shall put up a guaranty fund not lower than Pesos 12.5 million pesos (US \$304 thousand) by December 31, 2006.³⁴

During the same year, the Insurance Commission reduced the guaranty fund for new and existing MBAs *wholly engaged in providing microinsurance* from Pesos 125 million (US \$3 million) to Pesos 5.0 million (US \$122 thousand).

³¹ Considering this provision of the Cooperative Code and the current minimum capital requirement of Pesos 1.0 billion for a duly licensed insurance company, cooperative insurance societies will have to raise a minimum capital of Pesos 500 million in order to be licensed, This amount is four (4) times the required minimum capital requirement (Pesos 125 million) for an MBA.

³² All life and non-life insurance companies under conservation or receivership or for liquidation may be rehabilitated if the company met the capitalization requirement of P1 billion of which at least 50 percent consists of paid up capital and the remaining amount in contributed surplus which, should not be less than P200 million. This memorandum circular specifically states July 1, 2006 as the effectivity date.

³³ As provided for in the Code, this is equivalent to 25 percent of the minimum paid in capital for commercial insurance company.

³⁴ Prior to the issuance of the IC Memorandum Circular, the guaranty fund requirement for MBA is only Php 10,000 or US\$244 equivalent.

In summary, the capitalization requirements for various types of insurers are as follows:

TYPE OF INSURER	PREVIOUS REQUIREMENT	CURRENT REQUIREMENT
Life Insurer	Php 50 million (US\$1.2 million)	Php 1 billion (US\$24.4 million)
Non-Life Insurer	Php 50 million (US\$1.2 million)	Php 1 billion (US\$24.4 million)
Composite Insurer	Php 100 million (US\$2.4 million)	Php 2 billion (US\$48.8 million)
Reinsurer	Php 200 million (US\$4.8 million)	Php 2 billion (US\$48.8 million)
Existing MBAs	Php 10,000 (US\$244)	Php 12.5 million (US\$304,900)
New MBAs and existing MBAs under rehabilitation	Php 10,000 (US\$244)	Php 125 million (US\$3.05 million)
MBAs wholly engaged in micro-insurance	Php 10,000 (US\$244)	Php 5.0 million (US\$122,000)
Cooperative Insurance Societies	Not less than half of those required of a commercial insurance company	Not less than half of those required of a commercial insurance company

Table 4. Capitalization requirements

Aside from the minimum capital requirements, statutory reserve requirements are specifically provided for under the Insurance Code. In the case of life insurance companies, the statutory reserve requirement is based on the net valuation of all its policies, any additions thereto, unpaid dividends and all other obligations which is done on an annual basis. Non-life insurance companies, on the other hand, shall maintain a reserve for unearned premiums on its policies in force, which shall be charged as a liability in any determination of its financial condition. Such reserve shall be equal to forty per centum of the gross premiums, less returns and cancellations, received on policies or risks having not more than a year to run, and pro rata on all gross premiums received on policies or risks having more than a year to run. For MBAs, the reserve liability shall be established in accordance with actuarial procedures and as approved by the Insurance Commission.

To determine the financial condition of any insurance company (including MBAs) doing business in the Philippines, the Insurance Commission identifies specific types of assets that are allowed and admitted as assets owned by the insurance company. These assets are shown in Appendix 2.

In general, tiering of compliance requirements is evident only to the application of the minimum capital requirements, which depends on the type of license and insurance provider. For example, commercial insurance providers are required higher capitalization requirements compared to that required of MBAs. On the other hand, MBAs wholly providing micro-insurance products have lower capital requirements.

4.1.3. Product Regulation

Five classes of insurance are covered under the Insurance Code and these are:

- Marine Insurance;
- Fire Insurance;
- Casualty;

- Surety; and
- Life Insurance

The terms and features of each insurance policy, and the form and content of the policy contract require prior approval of the Insurance Commission before it can be offered to the general public. The Insurance Code spells out the separate and distinct requirements for approval for individual life or endowment insurance, group life insurance and for industrial life insurance. These requirements are shown in Appendix 3. It should be noted that these same requirements are employed for microinsurance (life and group life insurance).

Life insurance entities are required to engage the services of an actuary tasked and responsible for the development of a product. The actuary should be duly accredited by the Insurance Commission. The life insurance products are reviewed based on certain standards set by the Insurance Commission and should be approved before such products can be offered to the general public. Individual life insurance and group policy contracts require prior Insurance Commission clearance before they can be issued. Minimum terms and conditions of the policy contracts should have undergone actuarial study.

Life insurance and casualty insurance are the most relevant insurance products for micro-insurance. Life insurance is insurance on human lives and insurance appertaining thereto or connected therewith. It involves insurance on individual persons and may be made payable on the death of the person concerned, or on his surviving a specified period, or otherwise contingently on the continuance or cessation of life. Every contract or pledge of life, health or accident insurance for the payment of endowments or annuities is considered as life insurance contract.

On the other hand, casualty insurance is insurance covering loss or liability arising from accident or mishap. It includes, but is not limited to, employer's liability insurance, personal accident and health insurance as written by non-life insurance companies, and other substantially similar kinds of insurance.

Aside from the foregoing requirements for individual life or endowment insurance, group life and industrial life insurance, the nature, content and minimum terms of various insurance policies are also spelled out in the Code. Section 51 of the Insurance Code specifies that every insurance policy must at the minimum contain the following:

- The parties between whom the contract is made
- The amount to be insured except in cases of open or running policies;
- The premium; if the insurance is of a character where the exact premium is only determinable upon the termination of the contract, a statement of the basis and rates upon which the final premium is to be determined;
- The property or life insured
- The interest of the insured in property insured, if he is not the absolute owner thereof;

- The risks insured against; and
- The contract period during which the insurance remains in effect

In addition, the Insurance Code and the current rules and regulations issued by the Insurance Commission generally provide minimum requirements for transparency and disclosure of information regarding insurance policy contracts in order to define the responsibility of the insurer and protect the interests and rights of the insured. Disclosure requirements also include the applicable grace period, incontestability clause, options in case of default in premium payments, and conditions for reinstatement of policy.

It must be noted that the characteristics of micro-insurance as defined by the Insurance Commission have similar features as an industrial life insurance. The Insurance Code defines industrial life insurance as a 'form of life insurance under which the premiums are payable either monthly or oftener, if the face amount of insurance provided in any policy is not more than five hundred times that of the current statutory minimum daily wage in the City of Manila". These features are similar to the features of "micro-insurance" as illustrated in the IC Circular which is discussed in Section 3.2 below.

To ensure that the minimum requirements are met, Section 226 of the Insurance Code requires the approval of the Insurance Commissioner for all policy, certificate or contract of insurance to be issued within the Philippines. This is also true for an insurance application form.

To date, the Insurance Commission has already approved five types of microinsurance products offered by Commercial insurance companies. These are all term life insurance products with accident riders. One has a health insurance rider.

License to conduct insurance activities are granted to firms and are not transferable nor can be delegated to another entity. Third party liability insurance is compulsory for motor vehicles. Compulsory life insurance is also imposed on government and private sector employees as required by labor laws.

There is no legal barrier for foreign firms to conduct insurance business activity, including reinsurance, in the Philippines as long as they conform to the provisions of domestic laws and regulations. Likewise, there is no prohibition for insurance companies (including micro-insurers and cooperatives) to seek arrangements for reinsurance from duly licensed reinsurers. The reinsurance contract should provide that the insurer, by paying a certain premium to another company, would reinsure their direct business to the reinsurer and if a claim would arise, the said reinsurer would be liable to pay the insurer of the face amount under the contract.

4.1.4. Market Conduct Regulation

4.1.4.1. Who can sell insurance products

Insurance entities and MBAs licensed by the Insurance Commission may employ the services of individuals or entities in marketing their insurance products and services but these individuals or companies should be licensed either as an insurance agent or broker.

Under the Insurance Code, an insurance agent is “any person who for compensation solicits or obtains insurance on behalf of any insurance company or transmits for a person other than himself an application for a policy or contract of insurance to or from such company or offers or assumes to act in the negotiating of such insurance. . .” On the other hand, an insurance broker is “any person who for any compensation, commission or other thing of value acts or aids in any manner in soliciting, negotiating or procuring the making of any insurance contract or in placing risk or taking out insurance, on behalf of an insured other than himself. . .” An agent carries only the products of the insurance company of which he is an agent while a broker is allowed to carry the insurance products of several insurance companies. Both are liable to all the duties, requirements, liabilities and penalties to which an insurance agent or broker is subject.

These insurance brokers or agents are required to take a written examination prior to the granting of a license and they should be adequately covered by a surety bond. An applicant for the written examination must be of good moral character and must not have been convicted of any crime involving moral turpitude.

The insurance agent or broker must satisfactorily show to the Commissioner that he has been trained in the kind of insurance contemplated in the license applied for. The license, if granted, is renewed annually for a fee ranging from Php5,000 (US \$122) to Php15,000 (US \$366) depending on the level of premium production. They can market a broad range of insurance products, including micro-insurance. Agents or brokers are required to explain the nature and provisions of the contract to their clients particularly the minimum disclosure requirements printed in the policy contract.

Although the IC charges license fees to agents/brokers, it does not impose a cap on the amount of commissions that these agents/brokers may get from the insurance companies from the volume of transactions generated. The setting of commission rates are left entirely to the market, particularly on the internal arrangement that may be agreed upon by the commercial insurer and the agent/broker. What the regulation is concerned is that agents/brokers are well qualified in so far as the selling of insurance products are concerned.

No insurance company doing business in the Philippines, nor any agent thereof, shall pay any commission or other compensation to any person for services in obtaining insurance, unless such person shall have first procured from the Insurance Commissioner a license to act as an insurance agent of such company or as an insurance broker as provided in the Code.

Besides the granting of individual licenses, the Insurance Commission is also authorised to grant license to juridical persons as general agents or brokers. However, such entities will have to provide the specific list of persons or individuals who may act in their behalf. This is clearly provided for under Section 364 of the Code that specifies “A license issued to a partnership, association or corporation to act as an insurance agent, general agent, insurance broker, reinsurance broker, or adjuster *shall authorize only the individual named in the license who shall qualify therefore as though an individual licensee..*”

In addition to the use of insurance agents and brokers in marketing their products, insurance companies may also sell their products and services through electronic means such as via cell phones. The country’s two largest cell phone service providers, Globe Telecom and Smart Communications, have total cell phone subscribers of more than 45 million, half of the population. Payment transfers and remittance agents are covered by regulations of the Bangko Sentral ng

Pilipinas and these may be tapped in the distribution of insurance products to a wider market with a lesser cost.³⁵ There are some companies like Philam, an insurance company that sell their insurance products via cell phone technology. However, if the sum insured is quite big, payments via cellular phone technology may not be applicable.

4.1.4.2. Processing and Payment of Claims

There are provisions in the Code that specifies minimum requirements for processing and payment of claims. Specific requirements are provided for various types of life insurance products.

Section 242 provides that the proceeds of a life insurance policy shall be paid immediately upon maturity of the policy, unless such proceeds are made payable in installments or as an annuity, in which case the installments, or annuities shall be paid as they become due. In the case of a policy maturing by the death of the insured, the proceeds shall be paid within sixty days after presentation of the claim and filing of the proof of the death of the insured.

Section 243 further provides that for policies other than life insurance policy, the amount of any loss or damage for which an insurer may be liable shall be paid within thirty days after proof of loss is received by the insurer and ascertainment of the loss or damage.

4.1.4.3. Filing of Complaints

To protect the consumer against any illegal acts, the Insurance Commission has the authority to adjudicate claims and complaints involving any loss, damage or liability for which an insurer may be answerable under any kind of policy or contract of insurance. In 2006, the Commission handled 2,436 insurance cases. Of these, 1,876 were settled, 238 were adjudicated and 6 were resolved.³⁶ This is quite important for micro-insurance clients since it clearly identifies a venue wherein complaints may be lodged without going through a costly, protracted and lengthy litigation process through the courts of law.

Any decision, order or ruling rendered by the Insurance Commission after a hearing shall have the force and effect of a judgment. Any party may appeal from a final order, ruling or decision of the Commissioner by filing a notice of appeal to the Intermediate Appellate Court in the manner provided for in the Rules of Court for appeals from the Regional Trial Court to the Intermediate Appellate Court.

In recent years there are a number of complaints lodged with the Insurance Commission, which are immediately resolved if the complaint pertains to receiving death benefits since the insurance contract is quite specific with respect to death benefits and requirements for submitting a claim. As of yet, there is no known complaint on micro-insurance. The overall stance of the Insurance Commission is to ensure that clients' interests are adequately protected and satisfied upon occurrence of the contingent risk event.

³⁵ Section 3.3.4 of this report provides further details..

³⁶ 2006 Annual Report, Insurance Commission

4.1.5. Institutional and Corporate Governance Regulation

As stated earlier, entities and cooperatives duly registered with the Securities and Exchange Commission (SEC) and the Cooperative Development Authority (CDA), respectively, may apply for an insurance license from the Insurance Commission. All these regulatory bodies have separate rules and guidelines that define the governance principles and management structure to be observed by entities registered under their respective jurisdiction.

In line with the national policy of instituting corporate governance reforms and in order to achieve policyholder and market investor confidence in the insurance industry, the Insurance Commission has issued Circular No. 31-2005 requiring insurance entities to adopt a set of corporate governance principles and practices once they have been granted license. The Code of Governance enhances the corporate accountability of insurers, promote the interests of their stakeholders specifically those of the policyholders, claimants and creditors.

The Code of Governance defines the role of the board, the chairman and the non-executive directors and includes a more rigorous procedure for the appointment of directors and the formal evaluation of the performance of the board and individual directors. To monitor compliance, it includes a Self-Assessment Questionnaire on the observance of the different principles of good governance for submission to the Insurance Commission within one (1) month after each semester. This will effectively ensure that even micro-insurance MBAs will be guided by good management principles in the conduct of their micro-insurance operations. Standardization of the chart of accounts for life insurance companies and MBAs has been instituted. It prescribes the adoption of accounts aligned with the Philippine Financial Reporting Standards (PFRS) and the international accounting standards. With the standardization, it would now be possible to assess and monitor the financial performance of micro-insurance providers (whether commercial insurers or MBAs) with the set of performance standards that will be established by the Insurance Commission. Microinsurance industry standards can likewise be established.

4.2. Microinsurance Regulations in the Philippines

4.2.1. Definition of microinsurance

The general stance taken by the Insurance Commission vis-à-vis micro-insurance is regulatory forbearance, which has led the regulator to issue circulars that provide a facilitative but prudent environment for the development of micro-insurance products and the establishment of institutions (e.g. micro-insurance MBAs) that focus on potential clients in the informal sector. Regulatory forbearance is motivated by the recognition that formalization of informal micro-insurance schemes will pave the way for sustainable risk protection to the informal sector. As indicated elsewhere in this paper, informal insurance schemes continue to be offered in response to a huge demand by the informal sector for some form of risk protection and their inability to get formal insurance cover.

In 2006, the Insurance Commission launched its initiative in promoting micro-insurance by officially declaring the month of January of every year as “Micro-insurance Month”. To kick off the initiative, the Commission issued a groundbreaking circular defining what micro-insurance is and its minimum features.

Memorandum Circular No. 9-2006 characterizes micro-insurance as follows:

- Microinsurance is “an insurance business activity of providing specific insurance products that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune.”;
- The minimum features of a microinsurance policy are;
 - The amount of premium computed on a daily basis does not exceed ten percent (10%) of the current daily minimum wage rate for non-agricultural workers in Metro Manila³⁷; and
 - The maximum amount of life insurance coverage is not more than five hundred (500) times the daily minimum wage rate for non-agricultural workers in Metro Manila (or Pesos 165,000 insurance coverage or US \$4024).³⁸
- The terms and conditions of micro-insurance policies shall have the following features:
 - The contract provisions can be easily understood by the insured;
 - The documentation requirements are simple; and
 - The manner and frequency of premium collections coincides with the cash-flow of, or otherwise not onerous for, the insured.

The move of the Insurance Commission to promote micro-insurance through the issuance of the aforementioned circular is a welcome development. It defines what a micro-insurance is in so far as the application of the general provisions of the Insurance Code is concerned and delineates those products from the traditional commercial insurance products. Clearly, it sets the parameters on how to design insurance products best suited for the poor and disadvantaged sectors by focusing on affordability, accessibility and simplicity.

It should be noted that Memorandum Circular 2-2006 clearly paves the way for the design of both life and non-life insurance products with affordable premiums for the low income segment of the population. Condition 2a applies to both life and non-life insurance while condition 2b, (maximum coverage) was only defined for life insurance. By setting the maximum insurance premiums at an amount not exceeding (\$0.85 daily or \$5.95 per week) and by requiring that micro-insurance policies should be simple and easily understandable, insurance products are made more affordable and accessible for the poor. Establishing a maximum limit for micro-insurance premium payments will provide insurance providers a benchmark in designing and creating innovative insurance products that can be affordable to the poor. Furthermore, it provides the regulator and the insurance providers a clear criterion to determine what micro-insurance is, for purposes of licensing, regulation and supervision.

³⁷ This translates to Pesos 35 (or US\$0.85) daily premium payments based on the current minimum wage rate of Pesos 350 for non-agricultural workers in Metro Manila.

³⁸ US\$4,024.00 at US\$1=Php41.00.

4.2.2. Tiered Capital Requirement

Under Memorandum Circular 9-2006, the Insurance Commission reduced the guaranty fund for new and existing MBAs *wholly engaged in providing microinsurance* from Pesos 125 million (US \$3 million) to Pesos 5.0 million (US \$122 thousand).³⁹ This will only apply to an MBA recognized as a “Micro-insurance MBA.” An MBA can be recognized as a micro-insurance MBA if the following conditions are met:

- It only provides micro-insurance policies to its members; and
- It has at least five thousand (5,000) member-clients.

To build-up their capitalization over time, micro-insurance MBA’s are required to increase their Guaranty Fund by an amount equivalent to five percent (5%) of their gross premium collections until the amount of the Guaranty Fund shall reach Pesos 12.5 million (US \$312 thousand).

There are no indications that commercial insurers look at the lowering of the capital requirement for MBAs as a hindrance or a negative factor to their entry in the microinsurance market. For instance, IC recently approved 2 or 3 life microinsurance products of commercial insurers (Ayala and Philam Life, Pioneer, Sun Life, 2 endowment and 2 accident) including insurance products being sold through text messages. Commercial insurers cater to a wider market and have more varied products to offer compared to MBAs that are limited to members only as to their clientele and life insurance products.

4.3. Other Policies and Regulations Relevant to Micro-insurance

4.3.1. Financial Inclusion Policy and Regulation

The Philippine National Strategy for Microfinance provides the general policy principles and direction in creating the enabling environment to provide the poor greater access to microfinance services, ***including micro-insurance***.⁴⁰ As a matter of policy and as practiced by microfinance institutions, the “poor” is determined based on the:

- Official definition of “poor” as provided for by the Government’s National Statistics Office (NSO) that regularly sets the poverty threshold based on the household income; or
- Quantitative as well as qualitative guidelines (e.g. in-door plumbing, access to health services, quality of housing, and level of income) as determined by the individual microfinance service providers. Standard means-test helps determine the income class of potential clientele.

³⁹ It is important to note that the reduction in the minimum capital requirement will only apply to MBAs that are 100% engaged in the delivery of micro-insurance products and services as defined under the IC Memorandum Circular No. 0-2006. MBAs that will provide additional insurance products other than “microinsurance” are required higher minimum capital requirements as set under IC Circular No. 2-2006, i.e. Php 125 million guaranty fund requirement for new MBAs and Php 12.5 million for existing MBAs.

⁴⁰ Microfinance is the provision of a broad range of financial services such as– deposits, loans, payment services, money transfers and insurance products – to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards. (Notes on Microfinance – BSP Circular 272, Series of 2001)

The National Strategy for Microfinance was formulated with a vision of a strong and viable private micro-financial market. It calls for a greater role of private microfinance institutions (MFIs) in the provision of financial services and for Government to concentrate on the provision of an enabling policy environment that will facilitate the increased participation of the private sector in microfinance in a viable and sustainable manner.

Since 1997, several laws and regulations have been issued favorable to microfinance operations most of which pertain to policies and regulations on micro-lending. These laws are the Social Reform and Poverty Alleviation Act, the Agricultural Fisheries and Modernization Act, Revised General Banking Act, and the Barangay Micro Business Enterprises Act. These and several government issuances, particularly by the Bangko Sentral ng Pilipinas (Central Bank of the Philippines) have proven to be effective in providing the poor greater access to credit and savings services by formal financial institutions. In particular, it has set the tone for a greater number of private microfinance institutions to provide financial services previously given only by informal lenders. Among the reforms are:

- Non-participation of government line agencies in the delivery of micro-finance products and services;
- Termination of directed credit programs implemented by government line agencies and their transfer to government financial institutions (GFIs), which are tasked to provide wholesale credit funds to private financial institutions that in turn will provide loans to individual borrowers at the retail level;
- Consolidation of government directed programs in the agriculture sector into one single fund for wholesale lending by GFIs;
- Use of sustainable community-based private MFIs as conduits in the delivery of micro-finance services;
- Adoption of market-based interest rates and financial and credit policies
- Promotion of savings mobilization;
- Use of the household's cash flow as basis in the design of microfinance products;
- Focus on capacity-building assistance to MFIs but to exclude seed funding, equity infusion and partnership funds from Government to MFIs;
- Liberalization of banking rules and regulations on non-collateral based lending;
- Lifting of the moratorium on the opening of new banks and branches for those engaged in microfinance; and
- Guidelines on the use of bank payments and settlements system, including e-banking activities, for microfinance. The system is widely being used by rural banks in their micro-lending activities and there is no barrier for this system to be used by insurance companies.

The financial inclusion regulations that were issued following the adoption of the National Strategy on Microfinance have proven to be effective in providing the poor greater access to financial services. In particular, it has set the tone for formal financial institutions to provide the services previously given by informal lenders. As a result, from less than a hundred in 1997, the number of MFIs (rural banks, cooperatives and NGOs) has increased to 1,410 institutions (2,118 including branches) with an outreach of 3.1 million clients.⁴¹

4.3.2. Taxation

The insurance industry claims that it is one of the most heavily taxed sectors in the financial system. Currently, the industry is taxed as follows:

Particulars	Life	Non-life Insurance
Corporate Income Tax	35% to be reduced to 30% in 2009	Same
Premium Tax	5%	None
Value Added Tax on premiums and commissions	None	12%
Documentary Stamp Tax		
Premium Collected	0.25%	12.5%
Reinsurance	Exempt	Same

Table 5. Insurance industry tax structure

In the case of income tax, MBAs and cooperatives are exempted from the payment of tax on net income derived from its operations. Although this indicates an uneven level playing field with commercial insurance providers, it is however considered reasonable as any surplus fund realized by these entities is plowed back to their owner-members. The expected reduction of the income tax in 2009 will decrease the disparity and will boost further private sector investments in the insurance industry.

There is also a recent move, which is supported by the Department of Finance to reduce the premium tax on life insurance products from 5% to 2%. According to insurance industry sources, the straightforward 5% tax on premiums paid for life insurance policy is effectively higher than the 12% Value-Added Tax (VAT) on non-life insurance contracts since under the VAT system, input taxes paid by non-life insurance companies can be deducted from the final VAT payable. Simulations made by the insurance industry show that a 2% premium tax on life insurance will equalize the tax burden on insurance policy holders, both life and non-life, and will eventually reduce the cost of premium to be paid for life insurance products.

4.3.3. Anti-Money Laundering Regulations

The “Know-Your-Client” (KYC) is one of the requirements under the Anti-Money Laundering Act of 2001 and it is applicable to all insurance contracts, regardless of type and amount covered. However, under Circular Letter No. 15-2007 which was issued on August 7, 2007, the Insurance Commission requires less stringent and minimal requirements for KYC in the case of low value insurance products and contracts.

⁴¹ As of August, 2007. Microfinance Unit, National Anti-Poverty Commission (NAPC), Office of the President of the Republic of the Philippines.

Specifically, for micro-insurance product whereby the amount of premium computed on a daily basis does not exceed ten percent (10%) of the current daily minimum wage rate for non-agricultural workers in Metro Manila; and the maximum amount of life insurance coverage is not more than five hundred (500) times the minimum wage rate for non-agricultural workers in Metro Manila, the filing of a duly accomplished application form which contains the minimum information about the client shall be sufficient. The provision defining the maximum amount of premium and coverage and providing reduced KYC requirement shall also apply to non-life minor line products.

In case of telemarketing, selling of insurance products via Short Message Sending (SMS) and direct marketing thru mail and publication by print, radio or television, there shall be no need to meet face-to-face with the client, provided, however, that the premium payable on the policy shall be minimal. "Minimal premium" shall mean an annual premium not exceeding Php50,000.00 (US\$1,220), or single premium not over Php125,000.00 (US\$3,048).

Since group policies are taken out by employers or entities to provide benefits to their employees or members, the employers or entities are considered as corporate clients and shall be required to submit KYC documentations. For individual members, in lieu of KYC requirements, the employer or entity which holds the policy shall be required by the insurer to submit a certified list under oath of individual members duly eligible to be covered under the policy and shall be responsible for verifying and maintaining the customer identification documents and records.

Insurance policies purchased through salary allotment and/or worksite marketing is effected through an authorization issued by the insured or policyholder allowing his employer to deduct due premiums from the insured's salary and remit such deductions to the insurer. In such case, the existence of an employer-employee relationship establishes the identity of the customer and his legitimate source of income. The net-take-home pay rule which is normally required in this market ensures that the coverage applied for is within the affordability level of the applicant and rules out the use of fund originating from illegitimate sources. Hence, for the purpose of complying with KYC requirements, the employer shall be considered as corporate client and shall be required by the insurer to submit KYC documents.

For policy holders with personal accident and health policies, credit life and term products, customer information are already provided in the application form for underwriting purposes, and throughout the life of the policy, confirmation **and verification** of the policyholder and beneficiary are made for purposes of policy maintenance, persistency, claim verification and any policy transaction after policy issue. Hence, the insurer is not required to duplicate this verification effort in complying with the KYC requirements.

Under a bancassurance, an insurance company allied with a bank is allowed to sell insurance products within the premises of the bank to the bank clients⁴². These existing bank clients have been

⁴² Section 20 of Republic Act No. 8791, otherwise known as the General Banking Law (GBL) of 2000, allows a bank, subject to prior approval of the Monetary Board, to use any or all of its branches as outlets for the sale of other financial products, including insurance, of its allied undertaking. To implement said section of the GBL, the BSP issued Circular 357, Series of 2002, identified these insurance products as life insurance products involving term insurance (including mortgage redemption insurance), whole life insurance, endowment, health and accident policies, variable life insurance contracts and life annuities. In the case of non-life insurance, this covers fire insurance, marine cargo policies, homeowners' policies and directors/officers liability insurance or such other products as may be authorized by the Monetary Board. This policy limitation is based on the concern that the use of bank premises for the sale of insurance products could give the banking public the impression that these products are covered by the deposit insurance system or guaranteed by the bank.

subjected to the KYC requirements and customer due diligence by the partner bank. Hence, in order to avoid undue duplication and alienating bank customers, the KYC requirements shall be waived in favor of bank's clients who will be applying for insurance coverage from the bancassurance partner in exchange for a notarized Bancassurance Agreement which contains a warranty clause that the partner bank has already subjected its clients to KYC requirements. Alternatively, the partner bank shall issue a sworn certification stating that the applicant is an existing bank client who has already been subjected to the usual KYC requirements.

4.3.4. Electronic Payments

Persons or entities that remit, transfer or transmit money on behalf of any person to another person and/or entity should be duly registered with the Bangko Sentral ng Pilipinas. Remittance Agents (RAs) include banks, money or cash couriers, money transmission agents, remittance companies and the like. Transfers can be done by draft, manager's or certified check, or tele-transmission and includes Automated Clearing House transfers, transfers made at automated teller machines, e-wallets and point-of-sale terminals.

The latest circular issued by the BSP concerns consumer protection for electronic banking (e-banking) products and services. BSP Circular No. 542, series of 2006, governs the implementation of e-banking activities of a bank for purposes of compliance with the requirements to safeguard customer information; prevention of money laundering and terrorist financing; reduction of fraud and theft of sensitive customer information; and promotion of legal enforceability of banks' electronic agreements and transactions.

Globe Telecom, the Philippines's second-largest wireless carrier, has a text-messaging service dubbed G-cash, which uses the prepaid cards in their cell phones to send and receive cash, pay bills, and make purchases at retail outlets. It charges US\$0.20 fee for any transaction below \$20 and a 1% charge for any excess amount thereafter.

Payments through electronic means and payment centers are already being practiced in a whole range of financial transactions, e.g., payment of utility bills, remittances and fund transfers. A number of MFIs have already incorporated in their microfinance operations the use of cell phone technology in accepting loan payments from their microfinance clients. The Rural Bankers Association of the Philippines under the Microenterprise Access to Banking Services (MABS) program of the USAID has tied up with Globe Telecom to provide mobile banking services for rural banks and their microfinance clients.

4.4. Regulatory Approach

The Insurance Commission acts as the regulator for insurance business in the Philippines with the Department of Finance acting as oversight agency. It has a wide authority to issue rules and regulations subject to the approval of the Secretary of Finance. These rules and regulations should not, however, be inconsistent with any of the provisions already provided for under the Insurance Code but should only supplement or further strengthen the attainment of the intent of the pertinent provisions specified under the law.

Some types of "insurance products" such as pre-need and health plans however do not fall under the jurisdiction and regulation of the Insurance Commission. Pre-need plans that cover, for example,

pension, education and interment, are regulated by the Securities and Exchange Commission. On the other hand, the operations of health maintenance organizations (HMOs) and their products and services are regulated by the Department of Health. Those HMOs have also to be registered with the SEC.

4.5. Major Regulatory Issues affecting Micro-insurance

The foregoing regulations in the insurance industry are seen as beneficial to the further development of micro-insurance in the Philippines. Foremost among them is the issuance of a micro-insurance policy pronouncement of the Insurance Commission that involves, among others:

- Lowering of the capital requirement for micro-insurance MBAs;
- Defining what micro-insurance is to guide market players;
- Requiring simplified documentation; and
- Relaxing “Know-your-Client” requirements in compliance with the Anti-Money Laundering Law.

Despite all of these initiatives, the following regulatory issues may need to be addressed:

- Regulatory Ambiguity. As explained earlier, pre-need and health care plans that are considered as “insurance” products fall outside the jurisdiction of the Insurance Commission. This has resulted in differing rules and regulations applied to various insurance products, and thereby created confusion in the market. Most of those interviewed during the FGDs conducted have indicated hesitancy in getting insurance due to a recent failure of a large pre-need company to meet their obligations in their educational plans. This has left a widespread impression that all insurance companies are unsafe and cannot be relied upon.
- Absence of Implementing Rules and Regulations for Cooperative Insurance Societies. Due to the lack of rules to enforce the provision of the Cooperative Code, cooperatives were driven to provide various in-house insurance schemes to meet the needs of their members. However, these insurance schemes are unregulated, did not undergo any actuarial studies and may therefore be considered as unsafe and unsound. It exposes their members to further risks. More than 65% of total cooperatives registered with the CDA are no longer operating due to mismanagement, governance issues and more importantly, the lack of rules and regulations. Since most of these cooperatives have, in one way or another, informal insurance schemes, the need to come up with the necessary regulations becomes more apparent to protect their members’ interests. Further details on its impact are discussed under the market section.
- Inability of rural banks to sell insurance products within bank premises. Most rural banks are situated in the countryside and about 25% of these banks are engaged in the delivery of microfinance services to poor clients. Given their proximity to poor areas of the country, these rural banks have the potential to be effective channels for widespread delivery of micro-insurance products. However, this potential cannot be exploited to its fullest. As explained earlier, under BSP Circular No. 357, Series of 2002, only universal and commercial banks (which are usually situated in urban areas) are allowed to use their head office and/or any of all its branches for the presentation and sale of other financial products (including insurance) of their

allied undertakings. These allied undertakings are defined as bank subsidiaries or affiliates.⁴³ As a result, rural banks resorted to taking group policy contracts with commercial insurers to cover credit life to protect their loans to bank clients. Other insurance products needed by clients of rural banks have to be arranged individually by said clients either directly with the commercial insurer or indirectly through an agent or broker that have a limited delivery network. It must be noted that this limitation is not applicable to cooperatives and NGOs with microfinance activities.

5. The microinsurance market in the Philippines

Section 2 provided an overview of the status of the insurance industry in the Philippines highlighting the low volume of insurance business in the country. The information, however, only includes insurance business provided by formal insurance institutions that are licensed and regulated by the Insurance Commission. This does not include the non-licensed insurance schemes provided by various types of institutions on an informal basis. Likewise, the information in section 2 also do not include information on “insurance-type” products that are not licensed and regulated by the Insurance Commission such as the pre-need plans and the medical plans provided by Health Maintenance Organizations (HMOs).

This section provides an overview and description of the existing microinsurance market in the Philippines. Micro-insurance is about providing insurance coverage to poor households that have been largely excluded from coverage by commercial insurance providers. These include individuals who are ignored by traditional commercial and social insurance schemes, typically from low-income households, who work in the informal economy, have irregular cash flows (Churchill 2006), and have seasonal fluctuations in earning capacity.

As discussed in the previous section, the Insurance Commission of the Philippines defines micro-insurance as follows⁴⁴:

- *The term “microinsurance” shall refer to 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.*
- *A “microinsurance product” is an insurance policy whereby the monthly premium does not exceed Pesos 1,050 (US\$ 24.42)⁴⁵ and the maximum amount of life insurance coverage is not more than Pesos 175,000 (US\$ 4,070).*

As observed by Llanto, Almario and Gamboa (2005) traditional insurance products offered by the majority of the Philippine commercial insurance companies are designed with the middle- and high-

⁴³ Subsidiary means a corporation more than fifty percent (50%) of the voting stock of which is directly or indirectly owned, controlled or held with power to vote by a bank while an affiliate means a corporation at least five percent (5%) but not exceeding fifty percent (50%) of the voting stock of which is directly or indirectly owned, controlled or held with power to vote by a bank.

⁴⁴ Insurance Memorandum Circular (IMC) No. 9 - 2006 of October 25, 2006 of the Insurance Commission. Amounts in PHP are tied to daily minimum wage rate for non-agricultural workers in Metro Manila.

⁴⁵ Exchange rate: US\$ 1 = Php 43 as of November 2007.

income classes in mind. This mindset has excluded low-income households due to supply-side and demand-side constraints⁴⁶. Recent government policy thrusts to establish a viable and sustainable microfinance market through an appropriate policy and regulatory environment has spurred the interests of the private sector in providing the needed financial services to the poor. These include, among other things, the design of insurance policies and products that cater to the insurance demands of the low income households.

This section provides an overview of the micro-insurance market in the Philippines. It provides salient features of the supply-side of the market with specific focus on the following: the major players in the micro-insurance market, how micro-insurance is distributed and the types of insurance products currently offered for low-income individuals. The demand side is discussed by giving a brief description of the existing and potential clients of micro-insurance.

5.1. Demand for microinsurance

The existing and potential clients of microinsurance mostly come from the informal sector, which represents roughly half to three-fourths of the Philippine economy's labor force⁴⁷. According to the ILO, the informal economy generated 76.3 per cent of employment in the Philippines in 2005⁴⁸.

The micro and small enterprises, constituting the majority of all business establishments, are the biggest employment generators in the economy. In response to fierce competition in global markets, the formal sector has been subcontracting most of their production and service requirements to small enterprises that pay relatively low wages. Those micro and small enterprises in the informal sector provide the output and employment opportunities to a vast number of poor households. The informal sector is weakly monitored given a weak labor inspectorate (820,000 establishments inspected by 250 labor inspectors on average). The Asian financial crisis and a general weakening of the economy have contributed to more informal economic transactions in the market. The large informal sector is exposed to various risks and unfortunately responsive social protection services for many small and micro-entrepreneurs and wage earners in the sector are not available (Llanto 2007).

A market survey conducted by the Risk Management Solutions, Inc., (RIMANSI) in June 2002 among 527 families in 17 cities/towns in Southern Tagalog and Bicol regions indicated that 54 percent of the families were covered by insurance of which 39 percent have on-going insurance policies, while 15 percent have previously bought policies but stopped buying. The survey also observed that there exists a huge demand for insurance as evidenced by 73% of the respondents who have expressed

⁴⁶ Demand for commercial insurance include an understanding of, perceptions and attitude toward insurance; risk management substitutes (product-demand match); affordability (cost of coverage and payment mechanisms); poverty level (purchasing power); frequency of risk occurrence; and institutional rigidities. On the other hand, traditional commercial insurers are sometimes constrained to offer insurance services to the poor due to existing barriers to entry such as high transactions cost, costs related to asymmetric information and uncertainty, actuarial difficulties, aggregate risks, lack of information, and a restrictive regulatory environment. In addition, a large capital requirement is needed to put up an insurance entity.

⁴⁷ An estimate given by RIMANSI puts the micro-insurance coverage at around 3% of the current market for insurance, mostly provided by the mutual benefit associations (MBAs). Current market means the total number of households that are potential clients of micro-insurance.

⁴⁸ International Labor Organization Quarterly Newsletter, "Decent Work For All", Vol. 5 Issue 2 July 2007

interest in the micro-insurance products of CARD-MBA⁴⁹. There are no known market demand studies available but interviews with MFIs and MBAs indicate that there exists a huge gap between demand and actual coverage of insurance among their clientele. This local level information (typical of low income communities) imply any of the following: i) there is an existing demand for insurance in these communities but this is not being tapped nor reached by the formal insurance market; and/or ii) the existing insurance industry have not yet fully appreciated the potential of this market for insurance.

The need for microinsurance and its benefits are recognized among the poor, however, affordability is a major concern. Focus group discussions (Table 6) conducted by the authors with potential and existing clients of micro-insurance, indicated that 50% to 70% of their total income is spent on food and on the education of children (see Table 6 for the profile of respondents). Very few are able to realize some surplus or savings, with amounts ranging from only about 3% to 10% of income. Most of those interviewed neither avail nor plan to avail of any insurance product. They, however, consider illness and sickness in the family to have very serious financial impact on them and thus, express great interest in some form of risk protection. Those indicating significant interest in purchasing insurance products underscored affordability as a major concern. They emphasized that the price of insurance should be within their paying capacity. They indicated a premium of Pesos 20-30 (US\$0.46-0.71) a week as affordable. Llanto et al states that “...foremost in their (that is, poor households’ minds) is the affordability of insurance. By affordability, we mean the size of the insurance premium and the burden of making regular payments. Simply put, the poor cannot access insurance currently provided by most commercial insurers even if they have the demand for it because the irregularity of their meager income flows cannot ensure timely payments of the expensive insurance products. Uncertain cash flows inhibit demand for insurance...”

Venue-Institution/ Type of Participant	Number Participants	of	Men	Women
<i>Luzon – Cabanatuan</i>				
ASKI clients with insurance	8		0	8
ASKI clients without insurance	8		0	8
AgriBank clients without insurance	8		5	3
<i>Mindanao - Cagayan de Oro</i>				
FICCO clients with insurance	6		0	6
FICCO clients without insurance	7		1	5
AGB clients with insurance	17		0	17
<i>Visayas – Iloilo</i>				
FRMB clients without insurance	2		0	2
PEMC clients without insurance	11		1	10
TEDCO clients with insurance	6		3	3

Table 6. Profile of Participants during the Focus Group Discussions

In the absence of insurance, low income households cope with risks using alternative means. Risks brought about by illness, accident and death in the family comprise the major risks faced by low-income households. They cope with these risks through either any of the following: utilizing savings, donations and borrowings from family, friends and relatives, borrowing from formal and informal lenders, sale of assets, financial assistance from local politicians and government agencies such as the Department of Social Welfare and Development and the use of informal mutual aid

⁴⁹ Llanto, Almario and Gamboa (2005).

schemes such as “damayan” fund.⁵⁰ In a damayan fund arrangement, each member of a community or group agrees to contribute a specified amount of money for the burial expenses and related expenses of a departed.

Among low-income households, there is some form of reluctance to purchase insurance products either because of mistrust on insurance companies or a negative image of insurance. Many of those the authors consulted in focused group discussions do not want to avail of any type of insurance products due to past bad experiences with a big commercial insurance provider. As early as 1978, the Insurance Code allowed insurance companies to sell an industrial life insurance product which are simple, has low premiums and caters to the low income households. A number of low-income households availed of this type of insurance then. However, most of the insured paid to agents who run away with the premium payments without remitting the payments to the insurance companies. Memories of this big insurance provider closing down without any form of compensation offered to policyholders are still fresh in their minds. Because of previous bad experiences with insurance, clients would rather save, borrow, sell assets or cut household expenditures to meet the financial requirements of unforeseen risky events.

More recently, some pre-need companies failed to meet their obligations when these became due leaving owners of pre-need plans without any alternative except to wait for the rehabilitation of those companies or accept whatever measly amounts that those companies were able to offer. These pre-need companies were those offering pre-need educational plans with a promise to pay the full and actual amount of tuition and matriculation fees in college in some future time. These companies failed to anticipate the onset of the Asian financial crisis, which brought them financial losses, the liberalization of tuition fees, which allowed universities and colleges to set market-determined fees. Thus, when the time came for these pre-need companies to comply with their promises, they miserably failed to deliver. These incidents had undue effect on the insurance industry inasmuch as many poor households do not make the distinction or do not understand the difference between an insurance and a pre-need company.

While these pre-need companies sell “insurance like” products, they are not within the jurisdiction of the Insurance Commission. Hence the policies and products they sell did not pass any actuarial review of the Insurance Commission and the investments made by these companies and their financial performance are not subjected to examination by a third party. Since both pre-need plan and insurance policies offer guaranteed payment of benefits to be availed of by the buyer at some future time, there seems to be confusion among clients who think that both products are one and the same⁵¹.

Other potential clients do not have insurance nor intend to buy insurance because they are not aware of, nor do they understand the benefits of insurance products. A number of participants in the focused group discussions said that they have never been offered any insurance policy all their life and that they have never had any explanation or introduction to insurance. Hence, they do not

⁵⁰ Please refer to footnote no. 4 for the definition of “damayan” fund

⁵¹ In the Philippines, insurance activity is regulated and supervised by the Insurance Commission while pre-need plans are not under any regulatory entity. Pre-need companies are only required to register with the Securities and Exchange Commission.

understand the importance and benefits of insurance. These individuals also look at premium payments as an additional and unnecessary expense.

These confirm earlier findings of various case studies of the Micro-insurance Centre. These case studies show that the poor either lack an understanding of insurance or have a negative perception of it (mistrust). The poor are unsure about paying in advance for a service that they may or may not receive in the future from an institution that they do not know, at worst, do not even trust. Certainty and timely payment of claims are very important consideration for poor households in buying an insurance product. Poor households seem to appreciate and understand better micro-credit because they immediately realize its usefulness in addressing their consumption smoothing and working capital requirements. On the other hand, they are anxious about parting with hard earned cash for a service that may or may not be delivered until some future time.

There is an expression of a strong demand for micro-insurance among poor households in areas where the major microfinance institutions operate. Most, if not all, microfinance institutions (NGOs, rural banks and cooperatives) in the country have made it compulsory for their borrowers to have some form of credit-life insurance or loan protection insurance. On the other hand, some members of these MFIs would normally have life insurance coverage as well either from commercial providers or from some informal insurance scheme, sometimes provided by the MFIs themselves. Field observations by the authors indicate that the decision of MFIs to provide their member-borrowers compulsory credit-life insurance or loan protection scheme is initially driven by a self-interested attitude to protect themselves from loan defaults. This does not mean that genuine concern about the need of poor households for some form of risk protection is absent. In fact, the thinking of MFIs evolved from requiring their members to get compulsory credit life insurance to the current attitude among a slowly growing number of those MFIs to develop or find other micro-insurance products, e.g., life insurance, health insurance, etc., for their members; hence the emergence of micro-insurance MBAs.

The MFI client's relationship with the MFI creates an atmosphere of mutual trust between the borrower and the lender. With a viable and sustainable MFI, clients realize that the MFIs are able to meet their need for financial services over time. As clients realize this, they become more open to new financial products being offered by the MFI. This mutuality of trust and the relationship between the client and MFI that was built over time paved the way for clients to easily accept and recognize the benefits and importance of having an insurance coverage. For instance, some MFI clients who used to be reluctant about having insurance coverage were easily convinced when insurance products were introduced by the MFIs.

MFIs also provide those poor households the necessary awareness of and education in insurance. As a result, most MFI clients are knowledgeable and convinced of the benefits of having an insurance coverage compared to those who do not have any relationship with an MFI. It is likewise observed that members have developed some degree of loyalty to MFIs that have been able to develop or find suitable micro-insurance products for their members.

5.2. Supply of Microinsurance

In the Philippines, microinsurance is provided by both formal and informal sources. Formal providers are those institutions that have the necessary license from and are regulated by the

Insurance Commission while informal providers are those institutions that may or may not be legally registered and do not have any license to sell insurance policies from the Insurance Commission.

Formal providers of insurance in the Philippines are comprised of commercial insurance companies, mutual benefit associations and cooperative service providers, which use a variety of distribution modalities.

5.2.1. Commercial insurance companies

These are companies registered with the Securities and Exchange Commission (SEC) under the Corporation Code. These companies are regulated by the Insurance Commission. Insurance companies should meet the minimum capital requirements prescribed by the Insurance Commission and must obtain a certificate of authority from the Insurance Commissioner prior to operation⁵². At present there are 37 life insurance companies, and 94 non-life insurance companies in the country. Of the 37 life insurance companies, only 9 are offering variable life products⁵³.

While there are 37 life insurance companies in the country, very few, e.g., CountryBankers, CLIMBS, SunLife, PhilamLife, Ayala Life, Insular Life and Pioneer Life directly offer micro-insurance products.⁵⁴ Upon issuance of the IC circular defining microinsurance, these companies have designed insurance products that fall within the definition of microinsurance. These products were approved in 2006 and 2007 and are now being marketed to the general public.

RIMANSI reports that in the last 42 years, Country Bankers has provided credit life insurance to a cumulative total of 300,000 clients who are member-borrowers of MFIs⁵⁵. A few companies, that is, Mercantile, CocoLife, Sun Life and ManuLife have already set up partnerships with MFIs to provide micro-insurance⁵⁶. This approach to provide micro-insurance is called the partner approach in the Philippines. The different modes of distribution of micro-insurance are discussed below.

5.2.2. Mutual Benefit Associations

Microinsurance is also provided through Mutual Benefit Associations (MBAs). As defined by the Insurance Code, and as discussed in section 2, MBAs are entities (that is, any society, association or corporation) organized for the following purpose: i) paying sickness benefits to its members; ii.) providing financial support to members out of employment and iii.) paying relatives of deceased

⁵² Requirements for getting an insurance license are discussed in section 3 where all the regulatory requirements are presented.

⁵³ Variable life insurance products combine features of insurance and securities investments. Section 232.3 of the Insurance Code of the Philippines states that "...The term *"variable contract"* shall mean any policy or contract on either a group or on an individual basis issued by an insurance company providing for benefits or other contractual payments or values thereunder to vary so as to reflect investment results of any segregated portfolio of investments or of a designated separate account in which amounts received in connection with such contracts shall have been placed and accounted for separately and apart from other investments and accounts."

⁵⁴ Microinsurance is used here as defined in IC Circular 9-2006.

⁵⁵ RIMANSI (2007), " GTZ Microinsurance Innovations Project: Supply and Policy Environment Survey," December

⁵⁶ Wiedmaier-Pfister, M., Llanto, G., Portula, D., Jowett, M., July 2007: GTZ MIP Pre-Appraisal Report

members a pre-agreed amount of money. One has to be a member of the MBA regularly paying a fixed amount of contribution to be able to avail of the benefits.

MBA's are being organized by various types of institutions and associations since the enactment of the Insurance Code. These institutions and associations organize MBAs to provide for the risk protection needs of their members. For instance, the Armed Forces of the Philippines have organized an MBA for all the members of the armed forces to address the risk protection needs of soldiers and officers since most insurance companies would rather not insure individuals engaged in this type of occupation due to the risks inherent to their occupation. Public School Teachers have also organized the Philippine Public School Teachers Association (PPSTA), which provides for the risk protection needs of public school teachers. This MBA was organized for teachers who cannot afford the insurance premiums of policies sold by commercial insurance companies. Since the enactment of the Insurance code, a number of MBAs have been organized. At present, there are 18 licensed MBAs in the country, six of which are recognized as micro-insurance MBAs that are solely engaged in the provision of micro-insurance to their members. About 3 of these MBAs are currently under conservatorship.⁵⁷

Given the form and structure of the MBA, a number of MFIs that implement informal micro-insurance schemes are increasingly becoming interested in using this approach to provide micro-insurance to their members. The micro-insurance MBA is relatively easy to organize. The capitalization requirement is affordable to members, the process is simple and above all there is some form of regulatory forbearance for MBAs in view of their non-profit but service-and-member-oriented character and their ability to provide regulated micro-insurance products to the informal sector. MBAs have lower capitalization requirement compared to commercial life insurance companies. Moreover, MBAs wholly engaged in the provision of micro-insurance have lower capital requirements compared to a regular MBA. Appendix 4 shows the requirements and the steps an MBA needs to undertake in applying for a license.

A number of MFIs prefers using the MBA structure in addressing the risk protection needs of their clients since as an association organized by its members, MBAs offer the following advantages: (a) MBAs can design a system that is more responsive to the claims payment of members; and (b) able to develop a better product fit for the members. Members are also proud to be co-owners of a mutual benefit association. However, microinsurance MBAs have to develop their management, technical and financial capacity in order to provide better and sustainable services to members.

Box 1. Evolution of CARD-MBA

Realizing the need to protect its clients against risks, CARD established a Members Mutual Fund (MMF) in 1994. The MMF was designed for loan redemption in case of death of member-borrowers. CARD also offered basic life insurance program.

In 1997, CARD offered a monthly pension of Php 300 - 600.00 for life after the member's 65th birthday for only Php 2.50 weekly contribution. These in-house microinsurance services and its impact to the institution

⁵⁷ The three (3) MBAs were placed under conservatorship due primarily to the failure of these entities to comply with the minimum solvency requirements provided under the Insurance Code. A number of these MBAs provided loans to their members beyond the amount allowed (i.e. MBAs can only lend up to 50% of the member's equity value). In view of this, a number of the loans granted by these MBAs were disallowed as admitted assets resulting in their insolvency. Efforts are currently being finalized to come up with a rehabilitation program that includes infusion of additional capital to strengthen the financial position of these MBAs.

were not adequately assessed by CARD. institution

Towards the end of 1997, an assessment was done and CARD realized that a member would contribute for two years just to cover one month of pension benefit. CARD also realized that the institution was at risk because CARD was responsible for pension payment. And fulfilling its obligation to members would 'decapitalize' CARD and may lead to potential bankruptcy.

Recognizing the risks it face, CARD organized its clients into a Mutual Benefit Association (MBA). CARD MBA was born on September 9, 1999 to manage the Members Mutual Fund (MMF). It was registered as a non-stock, non-profit legal entity owned and partially managed by its members.

Collection of member's contribution is through the network of CARD branches and CARD MBA Provincial Offices. (As of 02-28-06, CARD has 157 branches and CARD MBA has 5 Prov'l Offices nationwide). 2% of gross contribution is paid to the branches as collection expense. 20% of the gross contributions are allotted to GAF but the actual usage ranges from 12 – 18% only.

Claims settlement is done at the CARD branch/Prov'l Office level with the assistance of the Center's Officers and MBA Coordinators. Claim's settlement is targeted at 1-3-5 days.

MFIs also find it easier to convince clients to join an MBA to provide for their risk protection needs inasmuch as the clients are already familiar with their group members. These microinsurance MBAs are considered distinct and separate entities from the MFI. Each MBA has a separate Board of Trustees and is professionally run by a manager. Table 7 shows a list of micro-insurance MBAs.

MBA	Status of MBA license	No. of members*	Types of products	Operational areas
CARD-MBA	Licensed since May 22, 2001	393,136 as of August 2007	LIFE Insurance ⁵⁸	Nationwide
Rural Bank of Talisayan – MBA	Licensed since 09/16/06	11,540 (member mobilization ongoing)	LIFE Insurance	Misamis Oriental and Quezon City
ASKI-MBA	Licensed since 10/10/06	11,694 (Total clients is 46,815 – ongoing mobilization)	LIFE Insurance	Central Luzon
KSK-MBA	Licensed since 4/19/07	10,282 (Total clients is 10,673 – ongoing mobilization)	LIFE Insurance	Bulacan, Rizal and Quezon City
Ad Jesum	Licensed since 07/27/07	2,322 (Total clients is 13,206 – ongoing mobilization)	LIFE Insurance	Davao Oriental
First Community Credit Cooperative	Licensed since 11/26//07	23,000 (Total clients is 102,331 – ongoing mobilization)	LIFE Insurance	Mindanao
Center for Community Transformation – MBA	Pending CCT board approval	121,103	LIFE Insurance	Nationwide

⁵⁸ Under the Insurance Code, MBAs are only authorized to transact life insurance transactions.

MBA	Status of MBA license	No. of members*	Types of products	Operational areas
Sto. Rosario Credit Development Coop	Pending second IC endorsement to SEC	21,702	LIFE Insurance	Bulacan
People's Rural Bank of Isabela	Pending name application at SEC	28,000	LIFE Insurance	Northern Luzon
People's Bank of CARAGA	Market research stage	40,000	LIFE Insurance	CARAGA Region

Table 7. Micro-insurance Mutual Benefit Associations

**Number of individuals covered is usually computed using no. of members x 5 (member+ spouse+3 children). However, CARD MBA insures all the children of the member.*

5.2.3. Cooperative Insurance Providers

The third approach to provide microinsurance is through cooperative societies. Under the Cooperative Code, cooperatives are allowed to operate Cooperative Insurance Societies. Cooperative insurers in Philippines are registered under Republic Act 6938, the Cooperative Code of the Philippines, which provides that: “existing cooperatives may organize themselves into a cooperative insurance entity for the purpose of covering the insurance requirements of the cooperative members including their properties and assets... the cooperative insurance societies shall provide its constituting members different types of insurance coverage consisting of, but not limited to, life insurance with special group coverage, loan protection, retirement plans, endowment with health and accident coverage, fire insurance, motor vehicle coverage, bonding, crop and livestock protection and equipment insurance... The provisions of the Insurance Code and all other laws and regulations relative to the organization and operation of an insurance company shall apply to cooperative insurance entities organized under this Code. The requirements on capitalization, investments and reserves of insurance firms may be liberally modified upon consultation with the Cooperative Development Authority (CDA) and the cooperative sector. But in no case may the requirements be reduced to less than half of those provided for under the Insurance Code and other related laws...” It is unfortunate though that to this day, the Insurance Commission and the CDA has not yet come up with clear and specific guidelines to implement the provisions of the Cooperative Code allowing cooperatives to organize cooperative insurance societies.

At present, there are two registered cooperatives providing insurance services to their members. These are: (a) Co-operative Insurance System of Philippines (CISP) and (b) Coop Life Insurance and Mutual Benefit Services (CLIMBS)⁵⁹. Each of these cooperatives is currently registered with the CDA as a service cooperative and not as a cooperative insurance society. At present, CDA has not yet come up with the guidelines for cooperative insurance societies.

Microinsurance products or insurance-like products are also provided on an informal basis through mutual fund-schemes. Mutual fund schemes are in-house insurance schemes usually offered by

⁵⁹ CISP has been put under conservatorship by the Insurance Commission because of financial difficulties. In 2006 the Insurance Commission asked the two cooperative insurers to merge but this did not materialize because this was refused by CISP.

microfinance institutions such as NGOs and cooperatives⁶⁰. Unlike the *damayan* fund wherein members only contribute certain amounts of money when the need arises, under this scheme, each member contributes a pre-determined amount to the fund on a regular basis. Members are assured of a guaranteed amount of benefits should a risk event occur. These mutual fund schemes are not licensed nor approved by the Insurance Commission. The products they offer have not benefited from any actuarial computations and review. Box 2 shows an example of an informal mutual fund scheme.

Box 2. An example of an informal mutual fund scheme: First Integrated Community Cooperative (FICCO)

First Integrated Community Cooperative (FICCO) has established a mutual aid fund (MAF) for its members. The MAF has the following benefits: hospitalisation (Pesos 700 per day for 5 days); death aid of Pesos 35,000; and maternal care benefits of Pesos 1,100 for trained *hilot*; Pesos 1,250 for midwife in the house; Pesos 1,750 for those giving birth in hospital through caesarean section. To avail of these benefits, one has to comply with the following:

- Be an active member of the cooperative
- Have a minimum share capital of Pesos 3,000
- Have a minimum Pesos 500 savings deposit and
- Pay an annual contribution of Pesos 120.

Should the member decide to enrol his/her family members, he pays an additional Pesos 130 for dependents (maximum of 4 children) and Pesos 180 for the parents of the member. Only members up to 63 years old are qualified to join the mutual aid fund.

For death aid, each member contributes the following: Pesos 0.50 centavos for those who have been members for 5 years or more, Pesos 1.50 for those who have been 2-5 years members, and Pesos 2.50 for those who have been members for 2 years or less. Contributions are paid on a quarterly basis. A maximum amount of Pesos 35,000 is given to members who died. Fund collected in excess of the maximum benefit are credited to the MAF core fund.

FICCO has since then formalised its informal insurance schemes by establishing a mutual benefit association. The Insurance Commission gave a license to FICCO MBA on November 2007.

There are a number of cooperatives that implement in-house “insurance” schemes but the Cooperative Development Authority (CDA), regulator of cooperatives do not have an accurate registry of operating cooperatives, much less those providing in-house “insurance” schemes. According to CDA, there are at least 70,000 registered cooperatives in the country, of which only around 22,000 are actually operating. Of these, CDA further estimates that at least half or 11,000 are offering informal, in-house “insurance” schemes⁶¹. An example of an informal in-house micro-insurance product provided by a cooperative is shown in Box 2 above.

Cebu CFI Community Cooperative provides members (a sizable number of which maybe considered potential clients of micro-insurance) a health insurance product that is not regulated by any

⁶⁰ Rural banks do not engage in the provision of informal insurance schemes inasmuch as this is explicitly prohibited by the Bangko Sentral ng Pilipinas. Universal or commercial banks are only allowed to promote or sell insurance of commercial insurers if they are affiliates or subsidiaries of these banks.

⁶¹ This may be an overestimate because nobody really knows the exact number. What is sure is that many cooperatives have mutual aid funds, called locally as “*damayan*” funds, which are not insurance products.

government agency. It does not seem to be the typical informal insurance provider because it appears to have a well-run and well-funded health insurance scheme. This shows the potential of informal providers to meet the risk protection needs of the poor.

It should be noted though that the health insurance product provided by the Cebu CFI falls within the current definition of microinsurance (in terms of premium payments) as provided for in the regulation. Nonetheless, this informal scheme (product offered by a formal registered entity that is not licensed by the Insurance Commission to provide insurance products) seems to meet the risk protection needs of the cooperative members as shown in the box below.

Box 3. CEBU CFI Community Cooperative “Health Insurance”

CEBU CFI community cooperative was founded in 1970 by 29 members and 200 pesos initial share deposit. It currently has Pesos 1.3 billion in assets and some 28,000 members spread over six branches in the Visayas region, central Philippines with a plan to expand to one of the biggest islands in the country, Palawan. In 2006, it earned a net income of Pesos 100 million and paid members 25% return on their share deposits. The health insurance package accumulated a surplus of close to Pesos 72 million over the years.

Health care package 1:

- Annual premium: Pesos 3,300
- Coverage: Pesos 60,000 per annum (hospitalization, laboratory, consultation) renewable yearly and private room accommodation)
- With one year contestability period for pre-existing diseases

Health care package 2:

- Annual premium: Pesos 2,800
- Coverage: Pesos 40,000 per annum (hospitalization, laboratory, consultation) renewable yearly and semi-private room accommodation
- With one year contestability period for pre-existing diseases

Health care package 3:

- Annual premium: Pesos 1,200
- Coverage: Pesos 20,000 per annum (hospitalization only), renewable yearly and ward accommodation

Enrollment in the basic health program is compulsory for all borrowers with loans of Pesos 5,000 and up. Those without loans can join voluntarily. Upgrade to a higher benefit packages 2 and 3 is allowed after medical exam by the in-house medical doctor. CEBU CFI community cooperative maintains a fully staffed clinic to attend to members’ health care needs and check-ups prior to allowing admission into a private hospital.

According to RIMANSI, other than cooperatives, some MFIs and even small transport associations provide informal mutual fund schemes or insurance type product that caters to the specific demand of their clients. Most of these schemes are provided by institutions with a membership base of less than 3,000 and 60% had assets of less than Pesos 300,000. The design of these schemes are not based on any actuarial computation and neither do these organization follow or use sound actuarial principles. Despite this weakness, these organizations continue to offer micro-insurance products because of very strong demand from their clients, who do not have an alternative because commercial insurance providers have traditionally ignored the informal sector.

There are no systematic data on this practice since these schemes are informal and remain outside the regulatory attention of the Insurance Commission.

Most MFIs (especially cooperatives and NGOs) providing informal and in-house micro-insurance schemes (unregulated and unlicensed by the Insurance Commission) do not seem to be aware of the requirement of the Insurance Code that conducting an insurance business needs a license from the Insurance Commission. In 2007, the Insurance Commission conducted a series of road shows on micro-insurance disseminating information regarding the requirements of the Insurance Code on the provision of insurance products. After being informed of the requirements, some MFIs got interested in organizing MBAs so that the micro-insurance products they will offer their clients may be approved and regulated by the Insurance Commission. Others have decided to partner with established commercial insurance companies to provide their members formal insurance products instead of continuing with their in-house informal schemes after learning about the requirements of the Insurance Code.

5.3. Distribution

Micro-insurance in the Philippines is provided through either of the following distribution: partner-agent model wherein a microfinance institution ties up with a commercial insurance company, and the ***mutual model*** wherein the insured members of an organization are also the owners of the entity providing for their risk protection needs.. There could be combinations of partner agent and mutual model. For example, in the latter case, the MBA provides life and credit life insurance to members while a partner commercial insurance company provides non-life insurance products such as fire and property insurance.

5.3.1. Commercial insurance providers partner with microfinance institutions to be able to provide low-premium insurance policy.

Due to the cost associated with the provision of life insurance policies (cost of operation, broker's/agent fees and taxes), commercial insurance companies are generally reluctant to cater to the low-income market. They find it difficult to design and offer insurance products that have low premium payments that are affordable to the poor. One commercial company reported that they are only able to offer micro-insurance products with affordable premiums for the poor if they tie up with an MFI since the latter is able to generate the required volume of business. The total number of potential clients from an MFI that would buy the microinsurance product enables them to come up with low-cost insurance policy⁶². John Wipf estimates the distribution costs of commercial insurance providers at 25% to 35% of premiums and commissions. This contrasts with the low distribution costs of a mutual benefit association that is estimated at around 17%⁶³.

Since micro-insurance requires low premiums, commercial companies offering micro-insurance partner with microfinance institutions to be able to get the volume of members needed to cover the

⁶² Country Bankers Life Insurance Corporation designed a micro-insurance product for the microfinance clients of one MFI, Vision Bank. During interview, the officers of the company mentioned that they were only able to offer the microinsurance product due to the volume of business that was offered to them by the requesting MFI.

⁶³ Conversation with John Wipf, December 2007..

cost of providing micro-insurance. MFIs who have partnered with commercial insurance providers, on the other hand, think that this is an efficient approach in facilitating insurance coverage for their clients. MFIs also believe that under this approach, they can focus on their core competence, that is, the provision of savings and credit products to clients. The partnership also enables them to earn fees paid out from premiums collected by the commercial insurance providers upon issuance of insurance policies to the clients of MFI (either as group policy or as individual policy underwritten by an agent of an insurance company). MFIs rely on their well-developed loan collection mechanisms to ensure the collection of micro-insurance premiums.

5.3.2. Commercial insurance companies sell group insurance policy (microinsurance) to an MFI for their clients.

A commercial insurance company ties up with an MFI and provides the insurance needs of the MFI's clients. The commercial insurance company sells group insurance policy to the MFI for their clients. A licensed agent of the commercial insurance company sells and handles the group insurance policy. Under the arrangement, the group insurance policy is under the name of the MFI and each of the insured microfinance clients is given a certificate indicating the insurance coverage, benefits and the premium payments. Examples of commercial companies employing this type of arrangement are PhilamLife, Mercantile, SunLife (Canada) and Country Bankers Life Insurance Corporation. Most of these companies provide credit life insurance for the MFI clients. For instance, Country Bankers covers 600,000 customers for credit life. Alalay sa Kaunlaran Incorporated (ASKI), a microfinance NGO in Central Luzon, Philippines have entered into this type of arrangement with SunLife Inc. of Canada.

Rural banks adopting this arrangement avail of group credit life insurance policy only. They use the services of commercial insurance companies for the credit life insurance of all their borrowers (regardless of whether they are microfinance clients or not). Rural banks adopt this kind of arrangement as a protection for both the clients and the institution itself.

5.3.3. Commercial Insurance companies assigns one of its agent to market and sell insurance to the individual clients of the MFI

There are two life insurance companies that employ this arrangement. These two companies (Cooperative Insurance Society of the Philippines-CISP and Coop Life Insurance and Mutual Benefit Services-CLIMBS⁶⁴) are registered as service cooperatives with the Cooperative Development Authority (CDA) and have been licensed by the Insurance Commission to sell life insurance policies. As cooperative entities themselves⁶⁵, they partner with primary cooperatives (most of whom are also investors in the two companies) to provide the insurance needs of cooperative members. Both

⁶⁴ CLASP is the one and only licensed life insurance company that is organized by an MBA. It was organized in 1971 by Coop Life Insurance and Mutual Benefit Services (CLIMBS), an MBA owned and organized by cooperatives, self-help groups and NGOs nationwide to provide mutual protection services to its members. In 2004, then Commissioner Evangeline Escobillo challenged the membership of CLIMBS to merge CLASP and CLIMBS to create a stronger institution that will cater to the insurance needs of the marginalized Filipinos. The merged institution retained the name CLIMBS and was given a license as a life insurance company. As of today, it has a pending application for a composite insurance company.

⁶⁵ Both CISP and CLIMBS are owned by primary cooperatives. Several primary cooperatives have investments in them.

entities purposely targeted the low-end market by directly selling to the members of cooperatives. CLIMBS and CISP have its own set of agents who are assigned to and directly go to the partner cooperatives to sell insurance policies. The agents are responsible for marketing the insurance products as well as for processing all the documentary requirements for application and for claims processing. To date, CISP is currently under conservatorship⁶⁶ while CLIMBS is doing well⁶⁷. Box 4 shows the approach adopted by CLIMBS in distributing micro-insurance.

Box 4. Partner-Agent Model: Coop Life Insurance and Mutual Benefit Services (CLIMBS)

Coop Life Insurance and Mutual Benefit Services (CLIMBS) was born on September 1971 as an experiment on mutual protection. It was organized by prime movers of cooperatives from the Southern part of the Philippines to provide mutual protection to cooperative members that include low income farmers, fisherfolks, employees and laborers who cannot afford or do not have access to insurance products offered by commercial insurance companies.

After about four years of operation as a service unit of one cooperative federation, it was registered as a non-stock and non-profit corporation under the Securities and Exchange Commission (SEC) on November 20, 1975. On December 17, 1992 CLIMBS was registered with the Cooperative Development Authority (CDA) in compliance with the Republic Act 6938 or the Cooperative Code of the Philippines which was enacted in early 1992. The registration of CLIMBS with SEC was cancelled on April 14, 1993 as required by the CDA.

On April 20, 1994, CLIMBS got a license from the Insurance Commission as a Mutual Benefit Association (MBA). To become more responsive to the needs of its members, CLIMBS organized the Coop Life Assurance Society of the Philippines (CLASP), a life insurance company. CLASP was registered with the CDA as a service cooperative on March 17, 2004 and was given a license by the Insurance Commission to transact business of life insurance not only with cooperatives but the general public as well. It was also authorized to go into the business of non-life insurance during the same year.

With the new capitalization requirement of the Insurance Commission for both MBAs and life insurance companies, CLIMBS and CLASP consolidated into one entity just recently.

To date, the consolidated CLIMBS is owned by 1506 primary cooperatives, federations and self-help groups. It ranks 26th among 37 life insurance companies in terms of capitalization.

As a marketing strategy, CLIMBS enter into a partnership agreement with its owner-primary cooperatives that in turn offers CLIMBS insurance products to its members. Each member-owner primary cooperative is considered a marketing arm of CLIMBS therefore earns commissions from the sale of insurance to its members.

An assurance manager/assurance counselor is assigned to the primary cooperative. This person sells the insurance for the primary cooperative. Commission goes to the coop and the assurance manager/counselor. The coop assurance manager/counselor is licensed agent of the IC. They earn from commission on the insurance provided to the members and are not considered staff of the cooperative to which they are assigned to. CLIMBS choose the coop assurance manager/counselor and require a cash bond from them.

For claims processing however, the primary cooperative may deal directly with CLIMBS and opt not to go through the assurance manager anymore. This cuts the claims processing time. CLIMBS promises to pay the claims within 7 days upon submission or satisfaction of all documentary requirements.

⁶⁶ CISP is currently under conservatorship due to undercapitalization and financial problems.

⁶⁷ In early 2007, these two organizations have initiated discussions for merger. They were about to sign the merger in August 2007 but CISP backed out of the agreement at the last minute.

5.3.4. Commercial insurance company selling group insurance to an MFI enters into a partnership arrangement for premium collection and claims settlement

This is a unique arrangement employed by the Country Bankers Insurance Corporation (CBIC) wherein rural banks get group life and credit insurance coverage policies directly or through an agent of Country Bankers to cover the bank's clients. Bank clients, in turn, are given certificates by the rural bank to show proof that they are covered.

Country Bankers, being owned and organized by owners of rural banks, enter into a memorandum of agreement (also called partnership agreement) with rural banks for collection of premium and claims settlement. The agreement indicates, among other things, the following: i) partner rural bank collects premiums from individual clients covered under the group insurance policy; ii) reimbursement of all expenses incurred by the rural bank related to collection; and iii) payment of an administrative fee.

Under the agreement, rural banks collect the premium payments from the insured clients. Country Bankers Incorporated opens a deposit account⁶⁸ with the partner rural bank where premium payments are credited and claims are debited. This kind of arrangement was designed due to bad experiences with agents who ran away with premium collections in the past. With this arrangement, Country Bankers claim that they are able to address the problem of agents running away with the premium collections.

At present, Country Bankers has only 7 agents and sells an average of 22,000 policies in a month. They have partnerships with 600 rural banks including their branches totaling 1200 units. It should be noted though that a large proportion of these policies are credit life insurance, an insurance product that is compulsorily required by most rural banks from its borrowers.

Under this partner agreement arrangement adopted by the Country Bankers, claims processing takes a maximum of fifteen (15) days given complete documentation. Rural banks collect and transmit all the documents to the Country Bankers office through the agent handling the group insurance policy. All administrative processing and approval is done at the home office. Once approved, claims proceeds are deducted from the deposit account of Country Bankers in the rural bank. In cases where Country Bankers do not have a deposit account with the rural bank, claims proceeds are withdrawn from the nearest rural bank in the area where Country Bankers has a deposit account.

5.3.5. Long claims processing period employed by some commercial insurance companies prompted some MFIs to establish Mutual Benefit Associations for their clients.

Some microfinance NGOs initially adopted the partner-agent model (e.g. Alalay sa Kaunlaran, a large NGO in Central Luzon, Philippines) for the micro-insurance needs of their clients. After a few years of partnership, they decided to organize MBAs for their clients because the processing of claims with commercial companies took about three months resulting in dissatisfaction on the part of the clients. Considering that the MFIs introduced the concept of micro-insurance to the clients, the MFIs

⁶⁸ Insurance Commission approval is required for the deposits to be considered an admitted asset of the Insurance company.

are usually blamed for the shortcomings of the commercial insurance company. Delay in claims processing is usually attributed to incomplete documents and highly centralized processing systems of commercial insurers. The centralized processing systems adopted by most commercial companies required tedious verification process, which further contributes to the delay. Claims are processed at the head office in Manila while MFIs and their clients are located in the provinces resulting in delays in processing. This had a negative impact on the reputation of the MFI and their relationship with the clients. In view of this, a number of MFIs shifted to the use of the mutual model in providing for the micro-insurance needs of their clients. Table 7, p.47 provides a list of MBAs that are currently active in developing insurance products for members. Those MBAs are licensed by the Insurance Commission⁶⁹.

5.3.6. An increasing number of MFIs are organizing their clients into Mutual Benefit Association to cater to the clients' risk protection needs.

The organization of MBAs to meet the insurance needs of microfinance clients is becoming a popular track for MFIs in the country. Since most clients are already used to the idea of belonging to a group to meet their financing needs, promoting the idea of becoming a member of an MBA to meet their insurance needs has been easy for MFIs that have opted for this route. Insured clients are happy because they themselves are the owners of the association. Premium contributions are uniform among members and benefits are promptly provided should an unforeseen event happen. It is an attractive mode for MFIs inasmuch as they also benefit when their clients who have been indemnified by the MBA, are able to honor their loan obligations. The MBA is perceived by both MFI and client-members to be an indispensable scheme that provide responsive benefits⁷⁰ to members and the MFIs. The main drawback though of the MBA approach is the inability to offer non-life insurance products to members. This is partly due to the low capitalization requirement imposed on micro-insurance MBAs. However, MBAs have the option to convert into a full-pledged insurance company in order to provide a wide range of insurance products. This will depend, of course on the ability of the MBA to meet the rather high capitalization requirements of commercial insurance providers and the willingness of the members to get a commercial insurance license.

According to micro-insurance expert John Wipf, this approach has several advantages⁷¹. The established commercial insurance providers have the management and financial capacity to provide efficient service to micro-insurance clients. As well, clients could also possibly benefit from the wide range of financial products and services available with large commercial insurance providers. However, there are also disadvantages. There are high transaction costs arising from tedious

⁶⁹ Under the Insurance Commission circular 9-2006, an MBA will only be recognized as a microinsurance MBA once it has a minimum of 5,000 clients. Since most MFIs would not yet have the numbers needed to comply with the Insurance Commission requirement, CARD MBA, the first microinsurance MBA in the country, implements a program called Build-Operate and Transfer (BOAT). Under this program, MFIs that still do not have the required membership for the viable operation of an MBA are adopted by CARD. The members are initially insured with CARD MBA but enrollment, documentation and processing of claims are lodged within the MFI. CARD MBA provides the necessary technical assistance. As soon as the group becomes viable, the MFI registers and gets an MBA license from the Insurance Commission and CARD turns over the full operations to the new MBA.

⁷⁰ To ensure that the benefits provided by an MBA cater to the risk protection needs of the members, a market study is conducted prior to the design of the appropriate micro-insurance product. There is no information about the product development process followed by MBAs or MFIs. Neither is there information on the percentage of premiums paid back to members of MBAs.

⁷¹ Conversation with John Wipf, December 2007.

documentation requirements, numerous policy exclusions, inflexible premium financing and delayed claims payment. For instance, CARD was prompted to organize a micro-insurance MBA owned by its clients due to the lack of a good fit between the type of insurance product demanded by CARD clients and the products available with commercial insurance providers. Delays in claims payment from a commercial insurance company also prompted them to organize CARD MBA. At present, CARD MBA provides micro-insurance to more than 500,000 families.

5.4. Products

In defining micro-insurance, the Insurance Commission considered (a) the nature of the business activity, that is, “. . . providing specific insurance products that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune”; (b) the affordability of the premium and ease of premium collection; and the (c) need for simple documentation requirement. It also stipulated a maximum amount for life insurance coverage.

This section describes various types of insurance products in the market that are designed to meet the risk protection needs of the poor. The products described below fall within the definition of micro-insurance as provided for in IC-circular 2006-9. As mentioned previously, only life insurance was given the maximum coverage limitations. Non-life insurance products do not have limitations on maximum coverage, provided the premium payments and the features of the insurance policy contract fall within those provisions in the IC circular. Health insurance products and pension plans provided by some MFIs in partnership with health maintenance organizations or pre-need plans, however, do not fall within the Insurance Commission’s definition inasmuch as these providers are not within the jurisdiction of the Insurance Commission.⁷²

The RIMANSI 2007 survey mentioned above observed different types of micro-insurance products that have been introduced in the market by the respondent MFIs in the last 2-5 years (Table 8, overleaf). Most MFIs provide loan or credit life insurance through partnership with a commercial insurance company. More than half reported that they have life or term life insurance facility. A number (6) of MFIs have also made available medical or health insurance to members/clients. Other products include mortuary/burial plans, insurance against accident and retirement or savings plan. Some of these products, however, were provided in-house by the MFIs concerned and therefore did not go through the Insurance Commission approval process.

Licensed commercial insurers, cooperative insurance societies and MBAs can offer micro-insurance products as indicated in Table 8 below. However, micro-insurance MBAs are not allowed to offer non-life insurance products. They can offer life, health (as rider to life insurance) and savings products. Health insurance can be offered by micro-insurance MBAs as rider to a life insurance product which passes through the approval process of the Insurance Commission. MBAs can bundle their life insurance products with health plans provided by HMOs and there is no prohibition on bundling.

Product/Policy	Coops	RBs	NGOs	MBA	CIP	Total
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⁷² In view of what happened with the pre-need companies and the adverse impact on clients, there are pending bills in the legislature that seek to put pre-need plans under the oversight of the Insurance Commission.

No. reporting	4	4	4	1	1	14
Loan (Credit Life/MRI)	4	4	4		1	13
Life (Term Life)	2	2	2	1	1	8
Mortuary/Burial	2			1	1	4
Accident		1	1	1	1	4
Medical (hospital, maternity)	2	1	1	1	1	6
Retirement/Pension/Savings			1	1		2

Table 8. Basic Types of Microinsurance Products

Source: RIMANSI Survey, November 2007

The common features of these insurance products are outlined in Table 9 and are discussed below. Premium payments for micro-insurance are usually low. For most of the insurance products, premium payments range from less than a dollar to only about \$5 per week. In all cases, premium payments are made on a weekly basis and usually coincide with the weekly meetings where repayments and savings collection are also done. This is specifically true for those that are using the mutual model. In cases where a commercial insurance company directly underwrites the insurance, collection is usually done on a monthly basis by agents of the insurance company. In the case, however of credit life insurance offered by a full-service provider, premiums are collected by the MFI upon release of the loan. Premium collections are eventually remitted by the MFI to the insurance company.

	Credit	Life (e.g. PBC)	Medical/Health	Retirement
<i>Coverage</i>	Outstanding loan (of all members/depositors)/P30 00 and below not covered (NGO)	Member and his/her spouse & children	Hospital / Maternity allowance	Employed members
<i>Benefits</i>	No outstanding loan left to family; cash of P1000 - P10000 (NGO)/ P5000/P20000 (Coops)	natural death/accidental death (P60k): 50k-life, 5k-burial, 5k-medical	member & spouse - P200/day, child - P150/day (2x admission per year max of 15 days) / first 3 children - P1000 per child	Total amount of retirement less outstanding loan (if any)
<i>Age/Health limitations</i>	18 - 60 / 65 yrs old	18 - 60 yrs old	child 18 & below	60 years old and below
<i>Premium</i>	6-10% of outstanding loan (RB, NGO)/ P100 per year (Coops)/ P2-P10/week (NGO)	P820 / year	P10/week	P5 / week
<i>Contestability period</i>	None; 1 mo. / 6 mos. (w/ life)	1 year	None	None

Table 9. Features of Microinsurance Products

Source: RIMANSI Survey, November 2007

5.4.1. Life and credit life with additional benefits.

Credit life insurance is very common among rural banks.

Worried about the risk of non-payment of loans should the borrower dies during the course of the loan and the regulatory implications of having loan defaults, most rural banks require their clients to buy credit life insurance. MFI borrowers aged 18 to 65 years old are usually required to buy credit life insurance along with the usual loans from the MFI. All unpaid loans regardless of amount are

covered by credit life insurance. In case of death of the borrower-member, the loan is considered fully paid. As an added benefit, most MFIs give cash ranging from Pesos 1,000 to Pesos 20,000 to the surviving spouse or family member, who have been earlier designated as beneficiaries. Some providers also provide additional benefits to the members of the family aside from covering the outstanding balance of the insured's loan.

Premiums of credit life insurance are dependent on the amount of the loan and are automatically deducted from the loan of the clients. It ranges from 0.7 percent of amount of loans with 6 months maturity and 0.4 percent for loans with 3 months maturity. Requiring borrowers to get credit life insurance is a regular business practice of formal lending institutions such as rural banks and other microfinance institutions. For loans requiring chattel mortgage, rural banks require borrowers to secure non-life insurance (e.g. fire insurance, car insurance etc.). In the case of rural banks, non-life insurance is also provided by a commercial insurance company.

Life insurance is usually a term insurance product that provides cover for the insured when death occurs.

Life insurance is normally not compulsory and may be made available not only to members but also to their immediate family, that is, spouse and children. The family members (e.g. spouse and children) of the insured are covered with benefits that are usually smaller than those of the insured (e.g. Pesos 60,000 (US \$1463) death benefit for the insured, only Pesos 30,000 (US \$732) death benefit for the dependents).

A number of commercial insurance companies offer term life insurance products wherein an insured pays an annual premium of a small amount and he/she is covered for a year. Life insurance is usually bundled with an accident rider wherein the insured gets double the amount of benefits if death is caused by accident. In some cases, accidental dismemberment, burial assistance as well as some form of medical reimbursement is also provided. These products are particularly targeted to those that could only afford low amount of premiums and are not sure if they can again pay for the premium for the succeeding year. For some companies, an individual is allowed to buy more than one unit. In this regard, this product, while initially designed for those who can only afford low premium payments, may also cater to the relatively better off if they want to buy several units of the product.⁷³ A contestability period of one year is usually required for this product.

Term life insurance can also be purchased through the cellphone or via SMS. Recently, Philam Life has launched a term life insurance wherein an individual can purchase a policy by purchasing a card from authorized retailers of the insurance product. The insurance coverage is activated through a text message. This term life insurance can be purchased at Pesos 100 (US \$2.43) for a Pesos 10,000 (US \$244) coverage for a period of one month.

Most micro-insurance MBAs offer life and credit life insurance to their members.

⁷³ This allows the planholder flexibility to determine the insurance product that he will get in accord with his financial capability. For example, a commercial life insurer may include a health plan provided by an HMO in their product. However, the underwriting will be separate.

Life insurance indemnifies the beneficiaries with the face value of the insurance policy in case of death of the insured. When an insured client dies and leaves unpaid loans with the MFI, the outstanding loan is paid out of the proceeds of the insurance. An example is the life insurance provided by a large microfinance rural bank, People’s Bank of Caraga (PBC), based in Northern Mindanao. PBC requires all members who are in their second loan cycle to take on life insurance. In case of death, the insured’s beneficiaries receive a total of Pesos 60,000 (US \$1463) composed of (a) life insurance (Pesos 50,000 or US \$1220) and the balance of Pesos 10,000 (US \$243) for medical/burial assistance. The premium for such insurance policy is Pesos 820 (US \$20) for one year.

5.4.2. Accident insurance.

An example is the accident insurance provided by an NGO based in Iloilo City (Central Visayas) as a rider to life insurance. This plan provides for assistance to the insured member when he/she gets injured and hospitalized due to an accident. Benefits amounting to a low of Pesos 15,000 (US \$366) to a high of Pesos 100,000 (US \$2439) are provided for weekly premium payments ranging from Pesos 14 (US \$0.34) to Pesos 28 (US \$0.68).

5.4.3. Mortuary and burial plans

In the case of death of a member, assistance, usually in the form of cash, is given to cover the member’s funeral expenses. A cooperative in Caraga region, Northern Mindanao provides this type of insurance to all members who are required to pay Pesos 100 per month for mortuary assistance of Pesos 2,000. This product is usually provided as a rider to term life or credit life insurance.

5.4.4. Medical or health insurance.

This product, which is not under the jurisdiction of the Insurance Commission, mainly provides for the cost of hospital care arising from a member’s sickness or injury. An example is the medical insurance provided by Rural Bank Placer in Caraga. A member or his/her spouse covered by this insurance can avail of Pesos 200/day hospitalization allowance for a maximum of 15 days and admission into a hospital of not more than twice each year. Insured children have lower hospitalization allowance of Pesos 150 per/day. Meanwhile maternity benefits come in the form of a lump-sum Pesos 1,000 allowance, which is given in case the insured gives birth. Maternity allowance can benefit the insured up to her third child. The unit premium for a medical insurance is Pesos 10 per week.

Clients consider health and medical benefits as important benefits that enables them to cope with risks brought about by illness or sickness in the family. Some providers give cover to the insured in times of illness and/or hospitalization. This type of benefit comes in varied forms. Some providers, on the other hand, give direct assistance in terms of medical services while others provide the insured the coverage amount for hospitalization and medical expenses. Products of this type are shown in Table 10.

Provider	Type of Product	Premium payments	Death benefits for insured	Death Benefits for Spouse	Death Benefits for Children	Accident	Burial Assistance	Medical/Health Benefits
ASKI MBA	Life	P30 weekly	P120,000	P20,000	P10,000/child – max	P120,000 for principal		

					of 3 children	P20,000 for legal spouse P10,000 for children		
RB Talisayan MBA	Life	P20 weekly	P30,000	P10,000	P5,000/child – max of 3 children	P60,000 for principal P10,000 for legal spouse P5,000 for children		P1,000/12 mos of membership upon hospital confinement
Ad Jesum	Life	P20 weekly	P50,000	P5,000	P5,000/child – max of 3 children	P100,000 for principal P10,000 legal dependents		P5000 (accidental medical reimbursement only)
CARD MBA	Life	P15 weekly	P50,000	P10,000	P10,000/child – all children covered	P100,000 for principal P10,000 legal dependents		P10,000 motor vehicle accidental hospitalization
Country Bankers Microinsurance	Term life	P350 annually	P20,000	none	none	P40,000	P20,000	P2000 (accidental medical reimbursement only)
	Microinsurance	P80 monthly	P100,000	P25,000	P5,000 max of 3 children	double the benefits for principal and spouse		P10,000 max. medical reimbursement per year
CLIMBS	Microinsurance	P20 weekly	P30,000	15,000	P5,000 max of 3 children	P30,000 for principal and spouse P15,000 for spouse and children P5,000 for children	P10,000 for principal, P5,000 for spouse and P2,500 for children	None (but has a fire insurance cash assistance of P40,000)
FICCO	Life	P21 weekly	P40,000	P10,000	P10,000/child - max of 3 children	P80,000 for principal P20,000 legal dependents		
KSK	Life	P15 weekly	P50,000	P10,000	P10,000	P100,000 for principal P10,000 legal dependents		P10,000 per married couple per contract year – hospital reimbursement on vehicular accidents only

Table 10. Comparative Features of Some Microinsurance Products

Source of Data: RIMANSI (2007)

In summary, microinsurance products are designed to meet the demand of the poor for risk protection.

Both informal and formal microinsurance providers have tried to develop products that are responsive to the demand of poor households for risk protection. An example is shown in Box 5. The most common features of microinsurance products in the Philippines are as follows:

- simple product design that clearly identifies the face amount, benefits and the terms of the insurance;
- straightforward policy contract that is easily understandable by the client;
- uncomplicated documentation requirements
- low amount of premium payments
- requires frequent small payments that coincide with the cash-flow of the insured
- simple requirements for processing of claims with minimal exclusions.

Box 5. MICRO-BIZ Family Protector, Coop Life Assurance Society of the Philippines (also CLIMBS)

The Micro-Biz Family Protector is an insurance coverage for family of a micro-finance borrower designed to give protection for the financial loss in time of death of any member of the family and in times of financial loss due to fire. The following are the features of the Plan

- Term insurance, renewable yearly or co-terminus with the loan amortization. The Plan terminates when there is no payment of premium beyond the grace period.
- Weekly premium payments using the collection facility of the MFI. Monthly remittance of premium payments to CLIMBS
- 30-day grace period. Grace period to only take effect after payment of one month premium
- Effectivity of coverage from the first weekly payment of premium duly receipted by the MFI provided it is remitted and duly receipted by CLIMBS within 30 day
- Eligibility requirements: 18 to 63 years old, of good health and has a source of income
- No medical examination required.

Schedule of Benefits

BENEFITS	AMOUNT OF INSURANCE		
	Principal	Spouse	Children (3)
Life Insurance	30,000	15,000	5,000
Accidental Death or Disablement	30,000	15,000	5,000
Fire Insurance Cash Assistance	40,000		
8 weekly premium	P20.00 per week		
Cash Burial Benefits	10,000	5,000	2,500

6. Drivers of the microinsurance market

As shown in the previous section, the development of the micro-insurance market in the Philippines may be attributed to a number of factors. These factors may be classified as non-regulatory and regulatory drivers. The former refers to those elements of the market that led to the development of the micro-insurance market in general and the design of various types of micro-insurance products in particular. The regulatory drivers, on the other hand, refer to specific regulations, issuances and circulars that led to the development of the micro-insurance market. It is noted that the relationship between the regulator and the insurance providers (commercial insurance companies, cooperative insurance societies and MBAs) is dynamic and interactive. It is not a one-way relationship wherein the regulated entities are mere passive recipients of regulation. In reality, insurance providers, including informal providers take the initiative to develop and innovate products, which may test the limits of regulation. The regulator formulates regulations in reaction to innovations and also, at times, takes the initiative in formulating regulation based on its reading of the market.

6.1. Non-Regulatory Drivers

6.1.1. The clients demand some form of risk protection

Those who are members or affiliates of MFIs have put pressure on those organizations to develop in-house microinsurance schemes. MFIs responded by (a) designing in-house “microinsurance schemes” without the benefit of actuarial computations, thereby creating risks for both the organization and member-clients, (b) forming mutual benefit associations and (c) buying insurance from traditional commercial insurance companies. Risk protection against illness, death and injury and to some extent, limited forms of fire and property insurance, and health insurance, have been developed by both informal and formal providers⁷⁴. Insurance for natural calamities and the vagaries of the weather is a potential growth area for insurance especially in a country such as the Philippines, which experiences regular occurrences of natural calamities (typhoons, flooding, drought and earthquake).

6.1.2. The development of the microfinance industry proved that provision of financial services to the poor is a viable and sustainable business activity

The development of the microfinance industry in the Philippines demonstrated that the poor are viable clients of financial services (e.g. loans and savings). This resulted in the mainstreaming of the poor into the financial system. Private financial institutions have increasingly provided savings and credit services to the poor. This development has established a large client base that is familiar with the use of financial services (e.g. need for regular payments for the purchase of the insurance product). In view of this, some commercial insurance companies that used to exclude the poor in their market for insurance, has started to consider MF clients as potential market for insurance.

⁷⁴ There has been recent interest in weather or index-based insurance among agricultural borrowers because of the failure of the government’s crop insurance program to provide adequate protection for crops, livestock and farm-related assets. This is not discussed, however in this paper. It is noted that the government provides relief assistance during times of disaster e.g., severe flooding, fire, but because of budgetary constraints, the assistance is of limited duration and amount.

In the same manner, Philippine experience show that it becomes easier for the poor to take up micro-insurance products when bundled with other financial products such as credit, or when provided by financial institutions that they are familiar with and whom they can trust. Bundling micro-insurance products (e.g. compulsory credit life for microfinance borrowers) with microfinance loans and purchase of group insurance policy by MFIs for their own clients paved the way for MF clients to consider MI products. Such familiarity makes it easier for any provider to offer insurance services as the poor considers these as another type of financial product that will meet their financial needs and allow them to cope with the risks they face.

6.1.3. Increased competition among MFIs prompted the provision of better and expanded services to clients, which include among other things, micro-insurance

The development of the microfinance industry in the Philippines is evidenced by an increased number of private financial institutions providing microfinance services. In 1997, there were only a few large MFIs with an outreach of less than half a million clients. After ten (10) years, the number of MFIs has reached 1,410. Including branches, these have swelled to 2,188 lending units. The total number of microfinance clients have, likewise increased to 3.1 million. With this development, clients have more options and are able to choose the MFI that can give the kind of service they need. In view of this, a number of MFIs have thought of ways to retain their clients. Realizing that clients need protection against risks, MFIs started to offer products that enable the poor to handle these risks (e.g. death in the family, illness etc). Hence, micro-insurance was recognized as another type of financial service that can be provided to the poor.

6.1.4. MFIs realized that the risks faced by clients may result in non-repayment of loans posing greater institutional risks for them

The recent microfinance revolution has given the poor access to savings and credit services from different types of MFIs. Experience has shown, however, that savings and credit services are not enough to cover the risk protection needs of the poor. Savings and credit services enable low income households to only somehow manage and cope with risks with some degree of certainty of occurrence and with losses that are relatively small. But when risks are uncertain and losses are large or technically catastrophic (e.g. illness, death, man-made or natural disasters), low income households are unable to cope and manage the risks they face. When faced with these events, the poor's cash flow, liquidity and earning abilities are impaired. Given the likelihood of these events, microfinance institutions realized that their loan portfolios are at risk for as long as clients are not able to manage their risks. Thus, microinsurance, e.g., credit life and life insurance, became a popular product to protect both clients MFIs against uncertain losses.

6.1.5. Group mechanism used for the collection of loan payments facilitated the provision of microinsurance services

MFIs enter into various arrangements to provide microinsurance to their clients. Pre-established groups under the MFI operations facilitated the implementation of group-based insurance. The group mechanism most commonly adopted by MFIs in their operations facilitated the provision of microinsurance services using various delivery channels. The loan repayment mechanisms developed by MFIs also prove to be effective for the members' premium collection. These mechanisms have created a payment culture on which the microinsurance provider is able to piggy-

back the premium collection. Collection of premium payments is made easy through the weekly/regular meetings of clients. Being used to being a member of a group, pre-established groupings for microfinance have made it easy for MFIs to organize mutual benefit associations (MBAs) for their member-clients.

6.2. Regulatory Drivers For Microinsurance

6.2.1. A policy and regulatory environment that facilitates private sector participation in the provision of financial services to the poor results in greater financial inclusion

The Philippine National Strategy for Microfinance provides the general policy principles and direction in creating the appropriate and enabling policy environment that will provide the poor greater access to microfinance services, including micro-insurance. The issuances of several laws and regulations following the formulation and adoption of the National Strategy have greatly contributed to the development of the microfinance industry in the Philippines.

Various laws (e.g. the Social Reform and Poverty Alleviation Act, the Agricultural Fisheries and Modernization Act, amendments to the General Banking Act, and the Barangay Micro Business Enterprises Act) and several government issuances, particularly by the Bangko Sentral ng Piipinas, have proven to be effective in motivating financial inclusion of the poor particularly in providing them access to credit and savings services. In particular, it has set the tone for a greater number of microfinance institutions to provide financial services previously given only by informal lenders. From less than a hundred in 1997, the number of MFIs (rural banks, cooperatives and NGOs) has increased to 1,410 institutions (2,188 including branches) with an outreach of 3.1 million clients.⁷⁵

6.2.2. The latitude or flexibility provided for by the Insurance Code to the Insurance Commission, enabled the insurance regulator to issue circulars that are responsive to the changing conditions of the market

While the Insurance Code provides specific details on how the insurance industry will be regulated, it allows the Insurance Commission some form of flexibility to respond to changing market conditions. For instance, with the poor gaining more access to formal loans, the high level of borrowing with MFIs has spurred demand for life and credit life insurance. The need for risk protection of clients or customers has also become apparent. This interest in insurance by poor households and micro-enterprises, mostly coming from the informal sector and the desire to cover them through formal (regulated) insurance, has motivated the Insurance Commission to pay attention to the challenges in the incipient micro-insurance market.

This is particularly expressed in the issuance of circulars defining micro-insurance MBAs and lowering of capitalization requirements for this kind of MBA. These circulars paved the way for an increased interest among MFIs to facilitate the organization of microinsurance MBAs.

⁷⁵ As of August, 2007. Microfinance Unit, National Anti-Poverty Commission (NAPC).

6.2.3. Lower capital requirement for microinsurance MBAs spurred interest among MFIs to organize MBAs to be able to meet the risk protection needs of their microfinance clients

As pointed out earlier, the development of the microfinance industry in the Philippines has resulted in the emergence of both informal and formal microinsurance schemes. MFIs cater to the risk protection needs of their clients either by providing the insurance themselves or by partnering with a commercial insurance company through the purchase of group insurance policy for their microfinance clients. Long and tedious claims processing usually experienced with commercial insurance companies prompted MFIs to seek out other means by which they can meet the risk protection needs of their members.

In the same manner, realization that self-insurance (or provision of insurance products by themselves) may unduly expose the MFI to risks also prompted MFIs to seek other means to meet their clients' needs. The issuance of tiered capital requirements for MBAs (i.e. lower capital requirements for MBAs wholly engaged in microinsurance) encouraged a number of MFIs to take the microinsurance MBA tract in providing insurance to their clients. The lower capital requirement for microinsurance MBAs facilitated the organization of microinsurance MBAs by MFIs that used to provide insurance to their clients informally. In the same way, MFIs that were not satisfied with the services of their partner commercial insurance company also organized MBAs for their clients. Lower capital requirements of microinsurance MBAs made it affordable for the MFIs clients to organize microinsurance MBAs.

As noted in previous sections, these MBAs require lower capital requirements compared to non-microinsurance MBAs. These MBAs, however, will be subjected to specific performance standards.⁷⁶

6.2.4. Regulation defining micro-insurance provided basis for commercial insurance companies to design appropriate insurance products for the poor

Establishing a maximum limit for micro-insurance premium payments provided insurance providers a benchmark in designing and creating innovative insurance products that can be affordable to the poor. The issuance of an IC circular defining micro-insurance prompted about 6 commercial insurance companies to design insurance products that fall within the definition of micro-insurance both in terms of premium payments and in terms of benefits. While there is no specific information yet as to whether the companies were able to market the products effectively, it is worth noting that the regulation paved the way for commercial insurance companies to consider this new market and design appropriate products.

⁷⁶ The Insurance Commission is currently working on the development of a set of performance standards for microinsurance MBAs.

6.2.5. Absence of regulation for cooperatives and the need for risk protection among cooperative members resulted in the implementation of informal microinsurance schemes

The lack of regulation for cooperatives especially those engaged in savings and credit operations has resulted in provision of informal and unregulated micro-insurance products to their members. Unlike the banks that are regulated by the Bangko Sentral ng Pilipinas, cooperatives (especially those engaged in savings and credit operations) are not currently regulated nor supervised by the Cooperative Development Authority (CDA). In view of this, informal insurance schemes and arrangements have mushroomed among cooperatives.

While under the Cooperative Code, cooperatives are allowed to organize cooperative societies with capital requirements that are only half of what is required from commercial insurance companies, to this date, no cooperative insurance society has been organized yet. None has yet availed of this regulatory space inasmuch as specific guidelines for the implementation of this provision of the cooperative code have not yet been formulated. The two cooperatives currently providing insurance products are registered as service cooperatives and are licensed by the Insurance Commission as commercial life insurance companies. One (CLIMBS) is registered as a mutual benefit association (MBA) with primary cooperatives as members.

Since there are dynamics within the cooperative sector, some primary cooperatives opt to self-insure their members rather than avail of the services of either CLIMBS or CISP. While provision of insurance products by the cooperative sector without any license from the Insurance Commission is prohibited, cooperatives are able to continue this activity inasmuch as the cooperative sector at present is still unregulated.

With the new thrust of the CDA to provide a more effective regulatory environment for cooperatives and with an increased coordination between the Insurance Commission and the CDA, it is expected that cooperatives would either be employing any of the existing distribution channels in meeting the risk protection needs of their members. They can, as an alternative, organize their members into MBAs considering the more lenient capitalization requirements for an MBA. With clear- regulatory guidelines and procedures under both the Insurance Code and Cooperative Code, the cooperatives would be encouraged to transform themselves into formal insurance providers as a cooperative insurance society or adopt the partner-agent model.

6.2.6. Regulatory forbearance for cooperatives enabled a registered cooperative licensed to underwrite insurance products to market their products among cooperative members

Since cooperatives are still not regulated at this point in time, insurance companies can sell their products within cooperative premises. This has proven beneficial for both CLIMBS and CISP. Agents are assigned in the partner cooperatives. These agents market insurance products to the members of the cooperative and are responsible for processing the claims of the insured members of the cooperatives. Aside from assigning agents to cooperatives, partner cooperatives are also considered marketing arm of both CLIMBS and CISP. Partner cooperatives therefore earn commissions from the sale of insurance products to their members.

The foregoing shows that the lack of regulation for cooperatives has allowed insurance companies to employ less costly marketing strategies. This type of arrangement is not possible for rural banks engaged in microfinance operations inasmuch as there is an existing bank regulation that prohibits the sale of insurance products within bank premises. Only universal banks are allowed to engage in allied undertakings such as insurance. Insurance companies in which a universal bank has at least 5 to 50 percent⁷⁷ (considered affiliate) ownership are allowed to sell insurance in the bank premises of its affiliate banks.

7. Summary and conclusions

This document provided an overview of the microinsurance market in the Philippines. It describes how policies, legal, regulatory and supervisory framework governing insurance have shaped the development of the microinsurance market and vice versa. The Philippine experience on the provision of micro-insurance services and the interaction between the insurance providers and the regulator helped identify the core market and regulatory drivers of the development and current state of the microinsurance market.

The study is organised into seven sections:

- **Section 1** introduced the study, its background and rationale
- **Section 2** provided the analytical framework
- **Section 3** gave an overview of the insurance industry in the Philippines
- **Section 4** described the existing regulatory environment for insurance in general and micro-insurance in particular. It lists and analyses the various provisions of existing laws, circulars and policies that affect the delivery of insurance services to the poor.
- **Section 5** then discusses the existing market for micro-insurance with specific focus on how this has evolved given the existing policy, regulatory and supervisory framework for micro-insurance services, while
- **Section 6** identifies the regulatory and the non-regulatory drivers of the micro-insurance market.

The following key insights emerge from the analysis:

Market context. The development of microinsurance in the Philippines was largely facilitated by the growth of the microfinance industry in the country which was made possible by Government's adoption of a policy and regulatory environment that encourages and facilitates financial inclusion of the poor. The success of the microfinance industry in the country prompted the insurance regulator to create a dedicated regulatory space for microinsurance by, amongst others, defining microinsurance, initially allowing lower capital requirements for MBAs wholly engaged in microinsurance, and requiring simplified documentation. Since then, MBAs have played an

⁷⁷ A bank with 5 to 50 percent ownership in a commercial insurance company is considered an affiliate of the company.

important role in promoting microinsurance uptake and has reached a large number of low income clients. The coverage of microinsurance however remains extremely low – estimated at only 5.4% of the low-income population. This implies that the majority of the poor still do not have effective means for mitigating risk and are vulnerable to shocks.

The policy, regulation and supervision context. Insurance business in the Philippines is generally covered by the Insurance Code (Presidential Decree No. 1460 of 1978) and, to a minor extent, by the Cooperative Code for cooperative insurance societies. Both of these laws identify the Insurance Commission as the main regulator and supervisor for insurance entities. Recognizing the nature of ownership of MBA and cooperatives, a tiered-capital regulatory structure was set up providing lower capitalization for these entities compared to commercial insurers. The Insurance Commission (IC) has wide authority to issue rules and regulations under the law. This regulatory flexibility provided the scope for the IC to specifically promote and advocate the provision of microinsurance through various circulars. However, there seem to be no explicit concessions for commercial insurers engaged in providing insurance products accessible to the lower segments of society. Furthermore, some types of "insurance products" are outside the regulatory ambit of the IC. Pre-need plans that cover, for example, pension, education and interment plans are regulated by the SEC. Health "insurance contracts" provided by Health Maintenance Organizations (HMOs) are registered with the Securities and Exchange Commission and regulated by the Department of Health. The HMO acts as both insurer and provider of a defined package of medical services with no out-of-pocket cost since these services have been prepaid. While under the Cooperative Code cooperatives are allowed to organize cooperative insurance societies with capital requirements that are only half of what is required from commercial insurance companies, no cooperative insurance society has been organized to date due to the absence of specific guidelines for the implementation of this provision of the cooperative code.

Salient features of the microinsurance market. Microinsurance in the Philippines is provided by both formal and informal sources. Formal providers are those institutions that have the necessary license from and are regulated by the IC while informal providers are those institutions that may or may not be legally registered and do not have any license to sell insurance policies from the Insurance Commission. Formal providers of insurance in the Philippines are comprised of commercial insurance companies, mutual benefit associations and cooperative service providers⁷⁸, which use a variety of distribution modalities.

Formal insurance penetration in the low-income market is estimated at about 3.1% of adults. Informal "in-house" insurance is very common within the cooperative sector. Such informal microinsurance is estimated to amount to 2.4% of adults, bringing the total microinsurance penetration to 5.4%. Other groups, such as damayan funds, also provide risk-pooling. Since they do not provide guaranteed benefits, their activities fall beyond the definition of insurance.

Compulsory credit life is estimated to account for 49% of microinsurance usage. Within the voluntary market, life insurance and "casualty insurance" (including disability and health insurance related to accidents) are the most important products. MBAs only provide life and credit life

⁷⁸ One of the two service providers (CISP) has been put under curatorship by the Insurance Commission because of financial difficulties – symptomatic of the generally poor condition of prudential risk management pervasive in the cooperative sector.

insurance. In the informal (self-insured cooperative) market, life insurance, sometimes with added hospitalisation or accident coverage, is the most common insurance product offered.

Drivers of market development. Microinsurance development was impacted by the following **market** factors:

- *Growth and development of the micro-finance industry.* The development of the micro-finance industry demonstrated the viability of the poor as financial services clients. Increased competition among MFIs has led to the provision of better and expanded services to members, including the provision of insurance. Microcredit also served to create awareness of financial services among the poor and compulsory credit life insurance has familiarised the market with insurance to the extent that spontaneous demand for other types of insurance, such as health and life, is emerging. Moreover, MFI staff and credit processes provide an existing and cost effective channel for insurance sales, premium collection and claims payments.
- *Group mechanism used by MFIs.* Pre-established groups under the MFI operations facilitated the implementation of group-based insurance. The loan repayment mechanisms implemented through centres/groups formed by MFIs prove to be effective for the members' premium collection. These mechanisms have created a payment culture on which the microinsurance provider is able to piggy-back the premium collection. Collection of premium payments is made easy through the weekly/regular meetings of clients. Pre-established groupings for microfinance have furthermore facilitated MFIs to organize mutual benefit associations (MBAs) for their member-clients.
- *The role of CARD MBA.* The MBA as a vehicle of choice for insurance provision by MFIs was influenced by the experience of CARD MFI, one of the MBA pioneers in the Philippines, and the assistance it provides to MFIs that want to meet the risk protection needs of their clients but have not yet reached the necessary scale for MBA operations.

In the same manner, microinsurance market development was also largely driven by the existing **regulatory** environment in the country:

- *Financial inclusion strategy indirectly stimulates microinsurance.* The issuance of several laws and regulations following the formulation and adoption of the National Strategy for Microfinance have greatly contributed in spurring private sector interest in the provision of microinsurance in the Philippines.
- *Microinsurance definition and prudential tiering facilitates market provision.* The latitude provided to the Insurance Commission under the Insurance Code furthermore enabled the insurance regulator to issue circulars defining microinsurance and setting out a tiered prudential structure that paved the way for an increased interest among MFIs to facilitate the organization of microinsurance MBAs. Defining micro-insurance has thus far prompted about 6 commercial insurance companies to design insurance products that fall within the definition of micro-insurance both in terms of premium payments and in terms of benefits.
- *Regulatory failure regarding cooperative insurance – now being addressed.* However, the lack of regulation on the cooperative sector resulted in informal insurance schemes and arrangements that have mushroomed among cooperatives. It exposes their members to further risks. More

than 65% of total cooperatives registered with the CDA are no longer operating due to mismanagement, governance issues and more importantly, the lack of rules and regulations. With the new thrust of the CDA to provide a more effective regulatory environment for cooperatives and with an increased coordination between the Insurance Commission and the CDA, cooperatives will be encouraged to transform themselves into formal insurance providers as a cooperative insurance society or adopt the partner-agent model.

Key issues for the regulation of microinsurance in the Philippines going forward. The development of the microinsurance market on the back of microfinance growth prompted regulators to create a dedicated regulatory space for microinsurance through MBAs. Since then, MBAs have played an important role in the delivery of microinsurance services to the lower income segments of the population. Certain regulatory barriers however still need to be addressed to further expand market access to microinsurance services by the poor. This includes the issue of effective regulation of cooperative insurance highlighted above. In addition:

- *Regulatory ambiguity.* At present, pre-need and health care plans that can be considered as “insurance” products fall outside the jurisdiction of the Insurance Commission. This has resulted in differing rules and regulations applied to these types of products, creating confusion in the market. Failure of companies providing pre-need and health care plans has also led to hesitancy, especially among the poor to get insurance since this has left a widespread impression that all insurance companies are unsafe and cannot be relied upon.
- *Inability of rural banks to sell insurance products within bank premises.* Most rural banks are situated in the countryside and about 25% of these banks are engaged in the delivery of microfinance services to poor clients. Given their proximity to poor areas of the country, these rural banks have the potential to be effective channels for widespread delivery of micro-insurance products. However, this potential cannot be exploited to its fullest since at present, only universal and commercial banks (which are usually situated in urban areas) are allowed to use their head office and/or any of all its branches for the presentation and sale of other financial products (including insurance) of their allied undertakings. As a result, rural banks resorted to taking group policy contracts with commercial insurers to cover credit life to protect their loans to bank clients. At present, very few microfinance clients of rural banks have availed of insurance products other than credit life.

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Appendix 1: Analytical framework

Financial inclusion framework

The five country studies explored the drivers of financial inclusion within the insurance market, in particular considering the impact of regulation. Ultimately, more inclusive financial systems are the desired outcome of the emerging guidelines proposed in this report.

Financial inclusion is achieved when consumers across the income spectrum in a country can access and sustainably use financial services that are affordable and appropriate to their needs. The overall level of inclusion achieved is determined by a variety of factors affecting the individual directly (demand-side factors) as well as the institutions providing the services (supply-side factors). Figure 1 indicates this schematically:

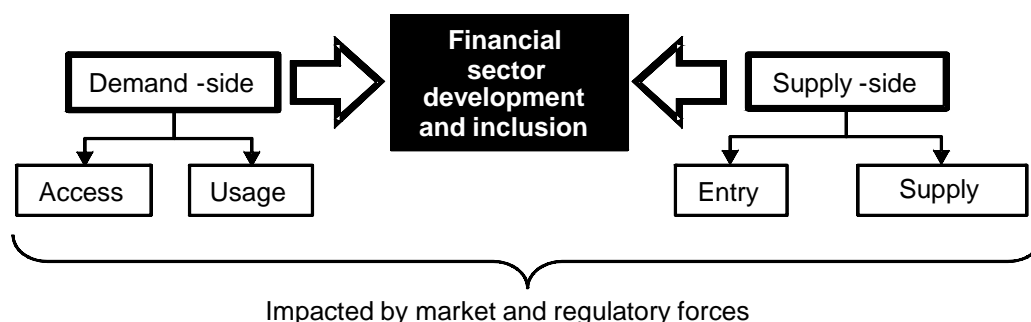


Figure 1. Financial inclusion framework

Source: Da Silva & Chamberlain, 2008

These factors may explicitly exclude individuals from using a particular service (referred to as **access** barriers) or may discourage users from using a particular service even if they are not explicitly excluded (referred to as **usage** barriers). Similarly, impacts may completely exclude or may discourage financial service providers from providing a particular financial service to the lower-income market – termed **entry** and **supply** barriers respectively. These concepts are briefly explained below.

- **Access** barriers consider the factors that make it impossible for a individual to use a particular financial service. The FinMark access methodology⁷⁹ identifies five factors that impact on access: physical proximity, affordability, eligibility, appropriate product features/terms and regulation.

⁷⁹ For more information see the discussion contained in Chamberlain (2005).

- **Usage** focuses on factors that may discourage individuals to take up formal financial services even if they do not present an absolute barrier. Usage decisions involve the exercise of judgment by individuals on the value of the product and its ability to meet their needs based on their experience and knowledge. This judgment is exercised within a complex set of considerations, constraints and priorities. Usage drivers may include: the value proposition of the formal product (e.g. the perception of “throwing money in the water” by paying insurance premiums when you do not necessarily claim); relative cost (e.g. compared to informal alternatives); the “hassle factor” (e.g. of filling out forms); and perceptions of formal products and institutions (e.g. the fear of “officialdom” and the belief that financial institutions are for the rich).
- **Entry** factors include market and regulatory forces that may prevent particular players from operating in the low-income market, or may make it difficult for informal providers to become formal sector players. This may include regulations restricting the type of legal entity that may for example provide insurance.
- Similar to the demand-side, **supply** factors do not explicitly prohibit institutions to enter into the low-income market but may discourage them from doing so. These may for example include proportionately increased regulatory costs on low-value transactions that undermine their already marginal profitability. While not necessarily making it impossible to serve the low-income market, it makes operating in this market unattractive.

The state of financial inclusion in a particular country is a composite of these four factors. The particular question that this project seeks to answer is how **regulation**, propagated through the various drivers of access, usage, entry and supply, impacts the overall level of financial inclusion in the insurance sector.

Goal of microinsurance

The country studies presented in this report accordingly focus on the role that the insurance market can play in reducing the vulnerability of the poor. Why would one want to develop microinsurance markets? The ultimate goal of microinsurance is to enable the poor to mitigate their material risks through the insurance market, in order to reduce vulnerability, thereby increasing their welfare. To be successful, microinsurance should therefore mitigate the most material risks faced by the poor client in a way that is affordable and appropriate to the low-income market.

In the process of mitigating their risk, microinsurance may also stimulate the provision of other services that are important to the poor, for example, credit services, funeral services or health services. This is achieved by providing more predictable income flows to providers that ensure viability of the provision of such services to the low-income market. Therefore microinsurance enhances the welfare of the poor by addressing material risks as well as supporting the delivery of critical services.

It must be noted that the availability or even take-up of insurance *per se* is not sufficient to achieve the goal of reduced vulnerability and improved welfare. To deliver value, low-income insurance products should also be affordable and appropriate to the needs of the poor. This requires sufficient awareness of the availability and value of insurance amongst the poor as well as the ability to claim on policies. Providers and intermediaries should also treat consumers fairly. If it is difficult or

impossible for a low-income client to make a legitimate claim on their insurance policy it will not reduce vulnerability and renders the product of little value.

The country evidence discussed in this document shows that microinsurance take-up is often not the result of voluntary strategies by the poor to mitigate their material risks, but is rather the outcome of compulsion by *credit providers* seeking to cover their own exposure to default. In this case, microinsurance may still deliver significant value to the client but care needs to be taken to ensure fair treatment of the low-income consumer.

Definition of microinsurance

Conceptual definition. Microinsurance is defined by the IAIS (2007b) as “insurance that is accessed by [or accessible to⁸⁰] the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices (which should include the Insurance Core Principles). Importantly, this means that the risk insured under a microinsurance policy is managed based on insurance principles and funded by premiums”. It therefore excludes social welfare as well as emergency assistance provided by governments, “as this is not funded by premiums relating to the risk, and benefits are not paid out of a pool of funds that is managed based on insurance and risk principles”.

This definition encompasses three concepts that require further explanation in the context of this study: “insurance, “accessible to/accessed by”, the “low-income population”.

- *Insurance.* Generally, insurance denotes a contract in terms whereby an insurer, in return for a premium, undertakes to provide policy benefits. It is distinguished from e.g. social welfare in that it is funded by premiums relating to the risk, and in that benefits are paid out of a pool of funds that is managed based on insurance and risk principles (IAIS, 2007). Benefits may include one or more sums of money, services or other benefits, including an annuity. Microinsurance forms part of the broader insurance market, distinguished by its particular low-income market segment focus (that often requires distinctive methods of distribution or distinctly structured products).
- *Accessible to.* Microinsurance products need to be accessible and appropriate to the low-income population, i.e. that the low-income population be in a position to sustainably use such products (including claiming).

The low-income population. This study does not propose any specific income cut-off for the microinsurance target market. Instead, the target market should be defined within the local country context. Microinsurance is not strictly limited to those living under the national poverty line or the comparative measures (e.g. \$1 or \$2 adjusted for purchasing power parity). Many of these households may actually be beyond the reach (e.g. affordability) of an insurance mechanism and will remain the dependent on the social security system. Furthermore, generally low income levels means that even the middle-income class (not classified as poor under the national poverty line) in a

⁸⁰ Authors’ own insertion.

particular country will have relatively low income levels and, therefore, require low-premium products.

Operational definition. Definitions based on the income levels of the purchaser or the client are difficult and costly to implement in practice. As result, the practical definitions applied by the market or regulator mostly define microinsurance policies by setting benefit or premium limits, thereby ensuring that it is mostly (but not exclusively) targeted at the poor. Other functional criteria used to define microinsurance (virtually always in *combination with a benefit cap*) include the following:

- Product categories that particularly reflect the needs of the poor (e.g. funeral insurance, or insurance for motorcycles or cell phones important to the low-income market for business purposes)
- Distribution channels, especially channels accessible to the poor;
- Simplicity of terms, conditions and processes;
- Contract characteristics, for example limiting exclusions that may be difficult for clients to understand or allowing clients to catch up on occasionally missed premiums without lapsing the policy

The insurance value chain

Delivering an insurance product to a client comprises a number of activities collectively referred to as the insurance value chain. Unlike the transaction banking value chain, where the activities are often performed by the same legal entity, the various activities comprising the insurance value chain are typically performed by more than one legal entity. The risks attached to the various activities differ and they are regulated by different regulators and supervisors or not at all.

Figure 2 presents a picture of the generalised structure of the insurance value chain:

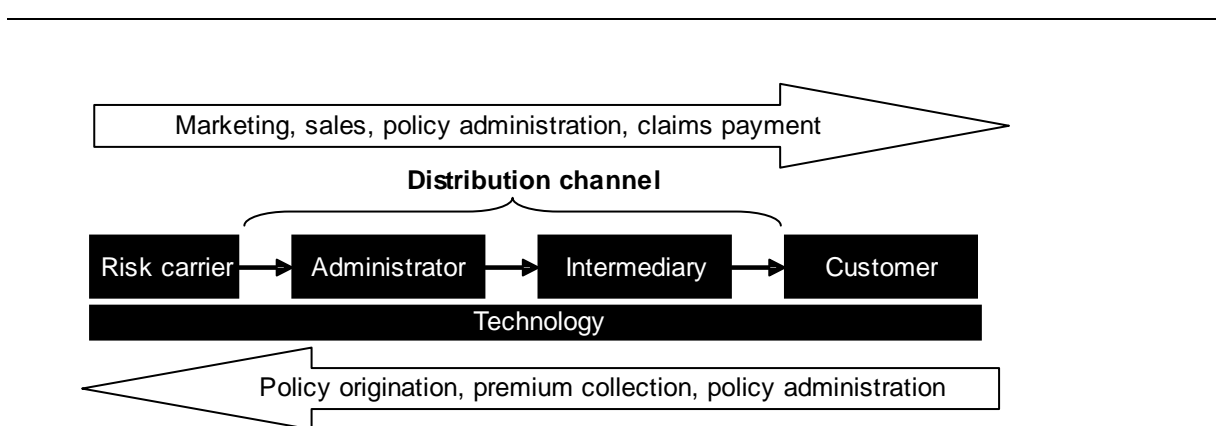


Figure 2. Insurance value chain

Source: Chamberlain, Bester et al, 2006, quoting Leach, FinMark 2005.

The functions of the various components of the insurance value chain are:

- *Underwriting*: This is the responsibility the risk carrier, defined as the entity that in the final instance is liable for the insurance risk. In the formal financial sector, the risk carrier is usually a registered insurer (that may obtain re-insurance) or another entity (such as a cooperative) authorised to provide insurance.
- *Administration*: Administration may be done at the level of risk carrier, intermediary or may even be outsourced to a specialised entity that often does not fall under the jurisdiction of the insurance supervisor. Administrative costs contribute a substantial proportion to overall insurance costs and innovation on this aspect is, therefore, of particular interest for microinsurance.
- *Intermediation*: Intermediation deals with all aspects of client contact and related activities (e.g. product origination) and may take a variety of forms including an insurer's direct sales division, captive or independent agents, retailers, banks and non-bank financial service providers, NGO MFIs, credit cooperatives, etc. Different types of intermediaries may be more or less suited to distribute microinsurance and may also be affected differently by regulation.
- *Technology*: Technology plays a role across the value chain and may include a variety of technologies ranging from sophisticated electronic solutions such as the use of mobile phones to social technologies such as premium collection through self-help groups. The appropriate use of technology may facilitate better risk management as well as lower the costs for microinsurance.

Understanding microinsurance in a particular market therefore requires focusing on more than just insurers and products. Particular attention has been paid to the intermediation of insurance in the markets reviewed in order to understand the regulatory ramifications on each part of the value chain. This is especially true for emerging technologies and innovations (for example mobile phone payments, distribution through retailers, etc.).

The distinction between formal and informal

Throughout this document, reference is made to informal and formal (or regulated and unregulated) markets, products, providers or distribution channels. Key issues to consider include the reasons for informality and what the appropriate policy and regulatory response should be. It is therefore important to clarify upfront what is implied by informality:

Formal. Formal financial products and services are defined as products or services provided by financial service providers⁸¹ that are registered with a public authority in order to provide such services⁸².

Informal. Informal financial services, therefore, refers to everything that is not formal as defined above and includes a wide range of providers. At its simplest this includes completely informal societies that are often of a community and mutual nature. In some cases informal markets may also include formal legal entities (e.g. funeral parlours) providing insurance without being regulated for the purposes of doing so. Informal insurance is not necessarily illegal. Specific providers or products may be exempted from insurance regulation or may simply be operating in the absence of

⁸¹ In turn defined broadly as any provider of financial services – in this instance insurance.

⁸² This is the definition generally applied by the World Bank.

regulation. Where a particular section of the formal market is regulated in theory but not supervised in practice, it may actually present similar risk and challenges to the informal sector.

The informal financial sector can play a critical role in financial sector development. The existence of large informal markets can be a key indication of demand for insurance products not met by the formal market as well as potential barriers to formalisation and market development. Informal institutions often fill the vacuum created in the process of formalisation by acting as distribution mechanism or providing the service themselves. The scale and number of informal insurance providers may provide a reality check on the challenges facing supervisors and regulation that attempts to formalise these markets. In many cases, the supervision of this sector may simply fall beyond the logistical or resource capacity of the supervisor.

From an inclusion perspective, the objective is to facilitate the development of the formal sector and encourage formalisation while at the same time preserving the critical services provided by the informal sector.

Categories of risk

The definition and analysis of risk and its various drivers is central to the analysis and proposals contained in this document. In this section we note the definitions and concepts that are applied in the discussion of risk.

The Insurance Core Principles (ICPs - IAIS, 2003) hold that “the supervisory authority requires insurers to recognise the range of risks that they face and to assess and manage them effectively” (ICP 18) and to “evaluate and manage the risks that they underwrite, in particular through reinsurance, and to have the tools to establish an adequate level of premiums” (ICP 19). ICP 18 states that the insurance supervisor plays a critical role by reviewing the insurer’s risk management controls and monitoring systems and by developing prudential requirements to contain these risks. In the final instance, it is the responsibility of the board (via good corporate governance practices) to ensure that risk is adequately managed.

The risk of insurance business stems from a variety of reasons. To simplify the discussion in this document we distinguish three (interdependent) categories of risks: prudential risk, market conduct risk⁸³ and supervisory risk:

- *Prudential risk* refers to the risk that the insurer is unable to meet its obligations under an insurance contract. Insurance provides benefits on a defined risk event in return for premiums that are paid in advance. A contractual commitment to provide benefits create the risk that the insurer’s liabilities in respect of expected future claims at some point in time may exceed the assets they have available to meet those claims. This is driven by a number of more specific risks categorised by the International Actuarial Association as underwriting risk, credit risk, market risk, operational risk and liquidity risk (IAA, 2004). Prudential risk is in the first instance determined by the nature of the insurance products in an insurance portfolio (underwriting risk determined by the likelihood and size of exposure) and secondly by how the insurer is managing

⁸³ These categories as are in line with the solvency methodologies as outlined in IAA (2004) and IAIS (2007a).

and providing for its obligations under these policies. Key features of the insurance product that impact on risk are: the nature of the risk event covered and its expected frequency and impact; the duration of the product contract; the benefit value; product complexity of the product. The product-driven nature of underwriting risk is a key feature of risk that we return to later in this document.

- *Market conduct risk*⁸⁴ refers to the risk that the client is not treated fairly and/or the does not receive a payout on a valid claim. Effectively this is the risk that clients will be sold products that they do not understand, are not appropriate to their needs, and/or will not be able to claim on. This risk is driven by various factors including: the nature of the product (e.g. product complexity, level of cover provided), the nature of the intermediation process (e.g. compulsory/voluntary nature of the purchase, standalone/embedded nature of the product, the level of disclosure or advice, nature of the claims process) and the nature of the client (e.g. level of sophistication and financial literacy). In some insurance literature market conduct risk may also refer to the risk arising from the insufficient disclosure of financial information by the insurer to investors and supervisors. This is **not** included in the definition of market conduct applied in this document.
- *Supervisory risk* refers to the risk that the supervisor is unable to sufficiently supervise (due to limited capacity) specific components of the market. The result of this is that an insurer or insurance product with low technical/underwriting risk may actually turn out to have a high risk to the system because it is not appropriately supervised.

Policy, regulation and supervision

Regulatory vs. non-regulatory drivers of market development

This report is about the impact of regulation on the development of microinsurance markets. Many insurance markets initially developed in an unregulated environment. The first pitfall to guard against is therefore to think that markets develop as a result of regulation. Largely they do not. The insurance sector is impacted by external factors in the financial sector and by the economic and country context more broadly, such as the macro-economic environment, the political economy, the general and financial sector infrastructure, and the demographic profile of the country (gender, age, income levels and the distribution of income). For example, a country undergoing financial liberalisation or recovering from a financial sector crisis or recession will face different policy challenges impacting on its insurance regulatory framework than other countries. Likewise, a country where the majority of the population is poor, or where the financial sector and other infrastructure is poorly developed, will face different circumstances and goals than other countries.

The first challenge is therefore to distinguish between the regulatory and non-regulatory drivers of market development. Whereas this distinction is quite clear in certain cases, causality is often a matter of degree and even opinion. The approach followed in this study is to identify the non-regulatory drivers of market development at a high level to provide the general context for tracing

⁸⁴ Market conduct concerns may impact on prudential risk in that the reputational damage may, e.g., lead to an insurer becoming insolvent but it is still quite distinct from it.

the impact of regulation. As far as possible we identify all the potential impacts of regulation, even though in many cases regulatory drivers may have been overridden by other market factors.

Purpose of insurance regulation

It is important to note that regulation is not an end-goal in itself, but is the means to ensure the existence and development of a well-functioning market. A well-functioning market includes serving the broadest possible client base, including the poor. In seeking to achieve the goal of a well-functioning market policymakers, regulators and supervisors pursue a number of more specific objectives including:

- *Stability of the sector.* This objective is sought by ensuring the soundness of operators and may resonate in capital requirements, corporate governance requirements, fit and proper requirements and other aspects of the regulatory framework. Among the regulatory objectives, this is often the one that has been pursued for the longest time.
- *Consumer protection.* While this is also an implicit goal in the stability objective, this objective most often resonates in market conduct/intermediation regulation (both in terms of the intermediation channels permitted, the due process to be followed, the commissions that can be charged and the requirements placed on the intermediaries themselves).
- *Improving market efficiency.* This may entail preventing anti-competitive behaviour and overcoming information asymmetries. In its application such regulation may overlap with both stability and market conduct regulation.
- *Market development* (or financial inclusion more specifically) is sometimes included as an explicit policy or regulatory/supervisory objective – for example in India, where the supervisor (IRDA) is also explicitly tasked with a development mandate.
- *Other strategic objectives.* This can for example include the prevention and control of financial crime as required by international standards imposed by the Financial Action Task Force or the economic empowerment of previously disadvantaged citizens as is the case in South Africa.

Given the ultimate goal, none of these individual objectives should be pursued at the cost of a well-functioning market. Some objectives may also conflict. For example: where an authority has the explicit mandate to develop the market, this may require the relaxation of regulations imposed for stability purposes. Therefore the market development objective may clash with the way the stability objective was pursued. Often, various objectives however mutually enhance one another.

Public policy instruments

To achieve its stated objective, a government uses three categories of public policy instruments to influence markets:

- *Policy.* The term “policy” denotes the declared intention of a government on how it wishes to order the financial sector and the objectives that it wishes to achieve. The trade-offs between various government objectives (for example consumer protection and financial inclusion) is therefore managed within the policy domain. Such policy can be contained in a specific policy

document (i.e. can comprise a dedicated policy framework), but can also be the stated intention of government more broadly/generally, be contained in speeches, in the preamble to legislation and in other documents (i.e. the general policy stance). Policy may sometimes be sufficient, in itself, to achieve government objectives even without regulation following from the policy. This may be the case particularly where government wants the market to achieve the stated goals. In most instances, however, policy is the canvas against which *regulation* is then developed.

- *Regulation*. Technically speaking, the statutes of a country are termed *legislation*. It is passed by the national legislative authority (be it parliament or congress). Legislation represents a relatively rigid public policy tool that is normally difficult and time consuming to pass and difficult to amend. In addition to legislation, *subordinate legislation* may be issued by the executive authority or regulator. Such instruments are more flexible, yet still have the force of law. In the event of conflicts, legislation will take precedence. In some jurisdictions, subordinate legislation is referred to as *regulations*. When referring to regulation, this document bestows a broader meaning on the term than subordinate legislation, namely: the various legal instruments with binding legal powers (legislation as well as subordinate legislation) that together comprise the regulatory body or regulatory framework pertaining to insurance. Regulation furthermore includes the action of regulating the insurance industry to achieve the policy goals. This in turn includes the development of *regulatory* requirements. The regulator may issue *guidance* in relation to regulation. Such guidance can be in the form of memoranda or circulars. It does not have the force of law, but can be converted into legally binding regulations if required.
- *Supervision*. Supervision describes the functions whereby the state seeks to ensure compliance with regulation. The supervisor's role can therefore be defined as the oversight and compliance, on behalf of the state, of the implementation of regulation by private entities, with the power to impose the penalties allowed for in regulation if not adhered to.

Generally, the policymaker will be the national government or the ministry with jurisdiction over the insurance industry, the regulator will be the ministry issuing the legislation pertaining to insurance or a statutory body issuing subsidiary rules, and the supervisor will be a statutory body for implementing such regulation, e.g. an insurance commission or financial services board, superintendence or authority more broadly. In many jurisdictions the supervisor as defined here can therefore simultaneously be the regulator.

Insurance regulatory scheme

Different categories of regulation are used to influence the behaviour of participants in the insurance value chain. These are collectively referred to as the insurance regulatory scheme, which can be captured in the diagram below. The report uses this scheme to analyse the impact of policy and regulation on the development of microinsurance markets in the sample countries.

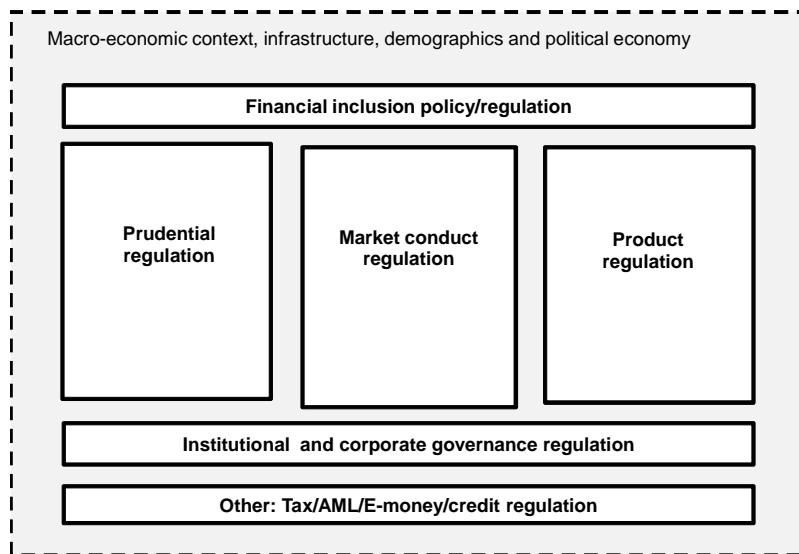


Figure 3. The insurance regulatory scheme

Source: authors

Financial inclusion policy/regulation refers to policy or regulation promulgated with the objective of extending access to and usage of formal financial services by persons who are either excluded from or who do not use formal financial services (provided by registered/licensed and supervised financial institutions). Such regulation can take various forms, for example compulsory or consensual quotas targeting defined population segments, financial literacy provisions, tax incentives, extending the reach of the formal payment system, etc. Sometimes a government may choose not to regulate financial inclusion, but simply to adopt financial inclusion policies with the explicit aim that financial institutions would pursue inclusion on a voluntary basis. Although these do not have the force of law, they will directly impact the conduct of providers.

Prudential regulation seeks to ensure that insurers are able to meet their contractual obligations to their clients. This is done by, for example, setting minimum entry requirements such as minimum levels of capital and requiring compliance with a set of prudential regulations governing the functioning of the insurer.

Market conduct regulation refers to the regulation of the distribution or intermediation of insurance products. Regulation of this kind could include requirements as to who can intermediate insurance, fit and proper requirements for agents and brokers and other intermediaries, regulation of the selling process, including disclosure requirements and giving of advice, regulation of the payment of commission, statutory requirements that make the take-up of certain types of insurance compulsory (for example credit life insurance may be declared compulsory when taking out a non-collateralised loan), etc.

Product regulation can be distinguished from prudential and market conduct regulation in that it does not relate to the insurer or the sales/intermediation process, but rather to the product in question. While provisions relating to product regulation are usually contained within either prudential, institutional or market conduct legislation, it therefore represents a distinct regulatory

angle. Product regulation aims to ensure stability and consumer protection by regulating the nature and structure of insurance products. In the most basic form, regulatory systems are often structured around definitions of specific products or product categories.

Box 6. Aspects of product regulation.

Product regulation may involve one or more of the following:

- *Registration/ approval.* In some jurisdictions, regulation stipulates that products need to be filed with the regulator/supervisor, with a window period for response by the supervisor, before the product is launched. If no objection is made by the supervisor within the stipulated time frame, the product is automatically approved. In other instances, explicit approval is required by the regulator before products may be offered. This may be used as a means of compensating for an otherwise light regulatory burden and to allow innovation.
- *Standards.* Regulation may require microinsurance to meet specific standards on simplification, standardisation, documentation, cool-off periods, term, exclusions, etc. In some instances, requirements relating to terms and provisions may be quite onerous; in others it may facilitate innovation.
- *Price control.* Regulation may set specific minimum or maximum prices for product categories. Premium floors are mostly aimed at trying to ensure solvency of the insurer by avoiding price competition, whereas premium ceilings are mostly motivated by consumer protection considerations (though in practice they often serve to protect insurers against intermediaries with bargaining power, rather than protecting the consumer).
- *Demarcation.* Regulation may also prohibit the provision of insurance products by particular players (e.g. non-corporates) or may determine that certain types of products may only be provided by certain types of providers (demarcation). Creating a product-based approach to microinsurance where a regulatory space is created for those who can comply with product standards is therefore a further instance of product regulation. The intention is to limit the risk, thereby justifying different market conduct and prudential standards.
- *Compulsory products.* Lastly, regulation may compel insurers to offer specific products.

Institutional regulation, which includes corporate governance regulation, refers to those statutory requirements that determine the legal forms or persons, for example public companies and cooperatives that can underwrite insurance, as well as the regulatory corporate governance requirements applicable to these legal forms. The nature and extent of the corporate governance requirements normally determine whether that particular legal institution is suitable to manage the risks inherent in underwriting insurance. The institutional and corporate governance regulation is generally not specific to the insurance sector (although some countries have a tradition of passing specific statutes for individual insurance firms, especially mutuals), but generic across sectors.

Other regulation. A number of other regulatory requirements could also impact the development of the microinsurance market. Although not insurance-specific, they impact the underwriting and intermediation of insurance products. Examples include anti-money laundering provisions, taxation, regulation of the payment system (that impacts the ease whereby premiums can be paid), regulation of the microfinance sector and credit regulation generally.

It is not only regulation *per se* that impacts market developments. The absence of regulation can play an equally powerful role. Similarly, even if regulation exists, a supervisory approach of “benign neglect” or “forbearance” can allow the market to develop in ways that cannot be foreseen *ex ante* by a regulator.

Appendix 2: List of Admitted and Non-admitted Assets

1. Cash in the possession of the insurance company or in transit under its control, and the true and duly verified balance of any deposit of such company in a financially sound commercial bank or trust company.
2. Investments in securities, including money market instruments, and in real property acquired or held in accordance with and subject to the applicable provisions of this Code and the income realized therefrom or accrued thereon.
3. Loans granted by the insurance company concerned to the extent of that portion thereof adequately secured by non-speculative assets with readily realizable values in accordance with and subject to the limitations imposed by applicable provisions of this Code.
4. Policy loans and other policy assets and liens on policies, contracts or certificates of a life insurance company, in an amount not exceeding legal reserves and other policy liabilities carried on each individual life insurance policy, contract or certificate.
5. The net amount of uncollected and deferred premiums and annuity considerations in the case of a life insurance company which carries the full mean tabular reserve liability.
6. Reinsurance recoverable by the ceding insurer:
 - from an insurer authorized to transact business in this country, the full amount thereof; or
 - from an insurer not authorized in this country, in an amount not exceeding the liabilities carried by the ceding insurer for amounts withheld under a reinsurance treaty with such unauthorized insurer as security for the payment of obligations thereunder if such funds are held subject to withdrawal by, and under the control of, the ceding insurer. The Commissioner may prescribe the conditions under which a ceding insurer may be allowed credit, as an asset or as a deduction from loss and unearned premium reserves, for reinsurance recoverable from an insurer not authorized in this country but which presents satisfactory evidence that it meets the applicable standards of solvency required in this country.
7. Funds withheld by a ceding insurer under a reinsurance treaty, provided reserves for unpaid losses and unearned premiums are adequately provided.
8. Deposits or amounts recoverable from underwriting associations, syndicates and reinsurance funds, or from any suspended banking institution, to the extent deemed by the Commissioner to be available for the payment of losses and claims and values to be determined by him.
9. Electronic data processing machines, as may be authorized by the Commissioner to be acquired by the insurance company concerned, the acquisition cost of which to be amortized in equal annual amounts within a period of five years from the date of acquisition thereof.
10. Other assets, not inconsistent with the provisions of paragraphs 1 to 9 hereof, which are deemed by the Commissioner to be readily realizable and available for the payment of losses and claims at values to be determined by him.

In addition to such assets as the Commissioner may from time to time determine to be non-admitted assets of insurance companies doing business in the Philippines, the following assets shall in no case be allowed as admitted assets of an insurance company:

1. Goodwill, trade names, and other like intangible assets.
2. Prepaid or deferred charges for expenses and commissions paid by such insurance company.
3. Advances to officers (other than policy loans), which are not adequately secured and which are not previously authorized by the Commissioner, as well as advances to employees, agents, and other persons on mere personal security.
4. Shares of stock of such insurance company, owned by it, or any equity therein as well as loans secured thereby, or any proportionate interest in such shares of stock through the ownership by such insurance company of an interest in another corporation or business unit.
5. Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies.
6. Items of bank credits representing checks, drafts or notes returned unpaid after the date of statement.
7. The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such insurance company exceeds the aggregate value thereof as determined in accordance with the provisions of this Code and/or the rules of the Commissioner.

Appendix 3: Minimum terms and conditions of life insurance policy contracts

	Individual Life or Endowment	Group Life Insurance	Industrial Life Insurance
Contract Form	<p>The policy shall constitute the entire contract between the parties, but if the company desires to make the application a part of the contract it may do so provided a copy of such application shall be indorsed upon or attached to the policy when issued, and in such case the policy shall contain a provision that the policy and the application therefore shall constitute the entire contract between the parties</p>	<p>A provision that a copy of the application, if any, of the policyholder shall be attached to the policy when issued, that all statements made by the policyholder or by persons insured shall be deemed representations and not warranties, and that no statement made by any insured shall be used in any contest unless a copy of the instrument containing the statement is or has been furnished to such person or to his beneficiary.</p> <p>The insurer will issue to the policyholder for delivery to each person insured an individual certificate setting the insurance protection to which he is entitled, to whom the insurance benefits are payable.</p> <p>In the case of a policy issued to a creditor, a provision that the insurer will furnish to the policyholder for delivery to each debtor insured a form which will contain a statement that the life of the debtor is insured under the policy and that any death benefit paid thereunder by reason of his death shall be applied to reduce or extinguish indebtedness.</p> <p>A provision setting forth the conditions, if any, under which the insurer reserves the right to require a person eligible for insurance to furnish evidence of individual insurability satisfactory to the insurer as part of his coverage.</p>	<p>A provision that the policy shall constitute the entire contract between the parties, or if a copy of the application is endorsed upon and attached to the policy when issued, a provision that the policy and the application shall constitute the entire contract between the parties, and in the latter case, a provision that all statements made by the insured shall, in the absence of fraud, be deemed representations and not warranties</p>
Grace Period	A policyholder is entitled to	A policyholder is entitled to	An insured is entitled to a

	a grace period of one month during which period the policy shall continue in full force, but in case the policy becomes a claim during the said period of grace before the overdue premium is paid, the amount of such premium with interest may be deducted from the amount payable under the policy in settlement.	a grace period of one month for the payment of any premium due after the first, during which the death benefit coverage shall continue in force, unless the policyholder shall have given the insurer written notice of discontinuance in advance of the date of discontinuance and in accordance with the terms of the policy. The policy may provide that the policyholder shall be liable for the payment of a pro rata premium for the time the policy is in force during such grace period.	grace period of four (4) weeks within which the payment of any premium after the first may be made, except that where premiums are payable monthly, the period of grace shall be one month. During the period of grace, the policy shall continue in full force, but if during such grace period the policy becomes a claim, then any overdue and unpaid premiums may be deducted from any amount payable under the policy in settlement;
Incontestability	The policy shall be incontestable during the lifetime of the insured after a period of two (2) years from its date of issue, or date of approval of last reinstatement, except for: -non-payment of premium; and -violation of the conditions of the policy relating to military or naval service in time of war	Validity shall not be contested, except for non-payment of premiums, after it has been in force for two years after date of issue. No statement by any insured shall be used in contesting the validity after such insurance has been in force prior to the contest period of two years	Incontestable during the lifetime of the insured after a period of not more than two years from date of issue, except for: -non-payment of premiums -violation of the conditions of the policy relating to naval or military service, or services auxiliary thereto, -provisions relating to benefits in the event of disability; and -provisions granting additional insurance specifically against death by accident or by accidental means, or to additional insurance against loss of, or use of, specific parts of the body.
Misrepresentation of Age	If the age of the insured is considered in determining the premium and the benefits, and the age of the insured has been misstated, the amount payable shall be such as the premium would have purchased at the correct age	A provision specifying an equitable adjustment of premiums or of benefits or of both to be made in the event that the age of a person insured has been misstated, such provision to contain a clear statement of the method of adjustment to be used	A provision that if the age of the person insured, or the age of any person, considered in determining the premium, or the benefits accruing under the policy, has been misstated, any amount payable or benefit accruing under the policy shall be such as the premium paid would have purchased at the correct age
Beneficiaries		Any sum becoming due by reason of death of the person insured shall be payable to the beneficiary designated by the insured.	No designation or change of beneficiary shall be binding on the insurer until endorsed on the policy by the insurer,

		<p>In the event that there is no designated beneficiary living at the death of the insured, and subject to any right reserved by the insurer, a part of the benefits may be made to any person by reason of having incurred funeral or other expenses incident to the last illness or death of the person insured.</p>	<p>the insurer may make any payment to the executor or administrator of the insured, or to any of the insured's relatives by blood or legal adoption or connections by marriage or to any person appearing to the insurer to be equitably entitled thereto by reason of having incurred expense for the maintenance, medical attention or burial of the insured:</p> <p>-If the beneficiary designated in the policy does not surrender the policy with due proof of death within thirty days after the death of the insured, or</p> <p>-if the beneficiary is the estate of the insured, or is a minor, or dies before the insured, or is not legally competent to give valid release</p>
Participating Policy	A provision that the company shall periodically ascertain and apportion any divisible surplus accruing on the policy under conditions specified therein		Same
Cash Surrender Value	<p>A policyholder is entitled to in the event of default in a premium payment after three full annual premiums shall have been paid. Such options shall consist of:</p> <p>-A cash surrender value payable upon surrender of the policy which shall not be less than the reserve on the policy; or</p> <p>-One or more paid-up benefits on a plan or plans specified in the policy as may be purchased by the cash surrender value;</p> <p>A table is required showing in figures cash surrender values and paid-up options</p>		<p>In the event of default in premium payments after three full years' premiums have been paid, the policy shall be converted into a stipulated form of insurance.</p> <p>In the event of default in premium payments after five full years' premiums have been paid, a specified cash surrender value of not less than the reserve on the policy and dividend additions thereto,</p> <p>A policy may be surrendered to the insurer within a period of not less than sixty days after the due date of a premium in default for the specified cash value, provided that</p>

	available under the policy each year upon default in premium payments, during at least twenty years of the policy beginning with the year in which the values and options first become available.		the insurer may defer payment for not more than six months after the application therefore is made. A table is required that shows in figures the non-forfeiture benefits available under the policy every year upon default in payment of premiums during at least the first twenty years of the policy.
Loans against Policy	At anytime after a cash surrender value is available under the policy and while the policy is in force, the insurer may advance, on proper assignment or pledge of the policy and on sole security thereof, a sum equal to, or at the option of the owner of the policy, less than the cash surrender value on the policy, at a specified rate of interest. The insurer will deduct from such loan value any existing indebtedness on the policy and any unpaid balance of the premium for the current policy year, and may collect interest in advance on the loan to the end of the current policy year, which provision may further provide that such loan may be deferred for not exceeding six months after the application therefore is made		
Annuity Tables	In case the proceeds of a policy are payable in installments or as an annuity, a table showing the minimum amounts of the installments or annuity payments		
Policy Reinstatement	A policyholder shall be entitled to have the policy reinstated at any time within three years from the date of default of premium payment unless the cash surrender value has been duly paid, or the extension period has expired.		A provision that the policy may be reinstated at any time within two years from the due date of the premium in default unless the cash surrender value has been paid or the period of extended term insurance expired.
Group Policy Termination on		If the insurance, or any	

Individual Holders		<p>portion of it, on a person covered under the policy ceases because of termination of employment or of membership in the class or classes eligible for coverage under the policy, such person shall be entitled to an individual policy of life insurance without disability or other supplementary benefits, provided that:</p> <p>(1) the individual policy shall be on any one of the forms, except term insurance, issued by the insurer at the age and for an amount not in excess of the coverage under the group policy; and</p> <p>(2) the premium on the individual policy shall be at the rate applicable to the form and amount of the individual policy, to the class of risk to which such person then belongs, and to his age attained on the effective date of the individual policy.</p> <p>If a person insured under the group policy dies during the thirty-day period within which he would have been entitled to an individual policy and before such individual policy shall have become effective, the amount of life insurance shall be payable as a claim under the group policy whether or not application for the individual policy or the payment of the first premium has been made.</p>	
Period for Claims Settlement	In the case of a policy maturing by the death of the insured, the proceeds thereof shall be paid within sixty days after presentation of the claim and filing of the proof of the death of the insured.		When a policy shall become a claim by death of the insured, settlement shall be made upon receipt of due proof of death, or not later than two months after receipt of such proof

Appendix 4: Requirements and Procedure for licensing of Mutual Benefit Associations (MBAs)

Licensing Requirements:

1. Accomplished Application Form (duly notarized)
2. SEC Certificate of Registration
3. Certificate of Registration from the following Agencies:
 - A, Bureau of Internal Revenue

 - B. Office of the Mayor/Municipal Board

 - C. Social Security System
4. Books of Accounts
5. List of Officers
6. Organizational Chart
7. Income Tax Return and Bio-Data of key officers
8. Floor Plan and Lease Agreement of the Premises, if applicable
9. Inventory of equipment, furniture and fixtures
10. Deposit of the Guaranty Fund
11. Paid-up Capital
12. Fidelity Bonds of Accountable Officers
13. Bank account/s of the MBA
14. Waiver for IC to ascertain MBAs capitalization are deposited with banks
15. National Bureau of Investigation clearance for Board Members
16. Pre-operational Balance Sheet
17. Minutes of the Organizational Meeting
18. Documentary Stamp
19. Pre-Licensing Examination

20. License Fee

Actuarial Requirements

1. Actuarial projections
2. Governing Rules and Regulations of the MBA
3. Membership Application Form
4. Membership Certificate or Insurance Certificate Forms showing the benefits
5. List of Members
6. List of Insurers, if any, and copy of Agreement

Appendix 5. List of Organizations Interviewed

Luzon

Agribusiness Bank

Alalay sa Kaunlaran

Country Bankers Insurance Group

GM Bank, Inc

Visayas

First Midland Rural Bank

Pavia Entrepreneurs Multi-Purpose Cooperative

Tubungan Entrepreneurs Development Cooperative

Valiant Rural Bank

Mindanao

Alejandro Go Beltran Foundation

Cooperative Insurance System of the Philippines

Coop Life Insurance and Mutual Benefit Services

First Community Cooperative

Appendix 6. Participants in the Focus Group Discussions

Participants in Luzon (6-7 September 2007)

1st FGD – clients with insurance – MBA

1. Clarita Villanueva
2. Filipina Doton
3. Helen Alagao
4. Caroline Jacob
5. Marieta Corpuz
6. Carmelita Gombio
7. Remedios Bravo
8. Araceli Evaristo

2nd FGD – clients with insurance – commercial insurer

1. Myrna Sadado
2. Melinda Octavo
3. Mercedita Espino
4. Gloria Riogelon
5. Gina Peralta
6. Dalisay Tumpalan
7. Leonides Sebastian
8. Teofila Angoluan

3rd FGD – staff of MBA

1. Ma. Veronica Novales
2. Oshmon Solomon
3. Ronald Arma
4. Orlando Cruz
5. Teodora Bigcas

4th FGD – GM Bank Staff

1. Eric Tarape
2. Emerson Torres
3. Edwin Verona
4. Jose Reyes

5th FGD – Agribusiness Bank Clients

1. Jinky Javate
2. Estrella Sta. Maria
3. Edilberto Sta. Maria
4. Corazon Soriano
5. Manolito Dionisio
6. Rufino Tablang
7. Reynaldo Alas
8. Romeo Tapang

Participants in Visayas (9-11 October 2007)

1st FGD – bank staff and clients without microinsurance – FMRB

1. Randy Yap
2. Cornelio Gargarita
3. Carmencita Gimoto
4. Ma. Carmen Ang
5. Vicky Geto
6. Adela Cerdana

2nd FGD – clients with insurance – PEMC

1. Erlinda Gayuma
2. Betty Huelle
3. Marivic Sola
4. Irene Simoy
5. Azucena Corteza
6. Cathleya Laecha
7. Analiza Cerbo
8. Daisy Matricular
9. Aurelia Arellano
10. Barbara Guaro
11. Gerardo Jallara

3rd FGD – staff and clients without insurance – TEDCO

1. Juan Talamillo
2. Honorato Tamonan
3. Edgardo Thalia
4. Aurora Daras
5. Aurora Talamilla
6. Leonarda Rodriguez
7. Rosalie Aguillan
8. Angeles Tabilon
9. Elvira Taladua

Participants in Mindanao (25-27 September 2007)

1st FGD – with microinsurance – FICCO

1. Alicia Palacio
2. Corazon Rosca
3. Norma Tagapulot
4. Verona Tagayuna
5. Jinky Canales
6. Rose Ferrer

2nd FGD – without microinsurance – FICCO

1. Rosendo Tulib

2. Luz Tubo
3. Josefina Maraguinot
4. Silvana Gubac
5. Sarah Sacote
6. Marcelinda Tucong
7. Aida Bogano

3rd FGD – staff – FICCO

1. Lorna Patriana
2. Ritafil Alima
3. Edgardo Micayabas
4. Ernesto Obsira

4th FGD – with microinsurance – AGB

1. Nena Bella Yanez
2. Virginia Basarinas
3. Mercy Jerusalem
4. Delsa Daumas
5. Maricar Suclatan
6. Arlyn Yanez
7. Ariza Pancho
8. Joy Cabiera
9. Angelina Abellanasa
10. Corazon Llaguna
11. Doris Belmonte
12. Adonila Dizon
13. Josephine Sajonia
14. Gina Chiong
15. Hersy Da-ao
16. Ma. Virginia Bristillo



Access to Insurance Initiative
Hosted by GIZ Sector Project
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The Initiative is
a partnership
between:



BMZ



Federal Ministry
for Economic Cooperation
and Development



International
Labour
Office



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