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CLIMATE RISK AND DISASTER RISK INSURANCE: THE CASE OF THE PHILIPPINES - MAKING CLIMATE RISK INSURANCE INCLUSIVE

**Regulatory Framework Promotion of Pro-Poor Insurance Markets
in Asia III (GIZ-RFPI Asia III)**

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Content

1. Introduction and background	3
1.1 Objective, definitions and scope of the case study	3
1.2 The effects of climate change and insurance markets globally	4
2. Thematic learning fields of the case study	5
2.1 Relevance and concepts.....	5
2.2 Guidance of the International Association of Insurance Supervisors	6
2.2 Role of the insurance supervisor	9
2.4 Inspirations from the global debate.....	9
3. Case Narrative.....	10
3.1 Country Context Philippines.....	10
3.1.1 Country profile and economic highlights relevant to CRI.....	10
3.1.2 Policy framework applicable to CRI	11
3.1.3 Public agricultural insurance / CRI schemes.....	14
3.1.4 Regulatory and supervisory framework applicable to privately-led CRI.....	15
3.1.5 Privately provided CRI products in the Philippines	18
3.2 Vision and stakeholders for developing and expanding CRI.....	20
3.3 On-going activities, challenges and ideas for the future	22
Bibliography	25
Annex 1 – Other development projects in Disaster Risk Reduction in the Philippines.....	27
Annex 2 – Microinsurance Data 2012- 2016.....	28
Annex 3 – The Typhoon Haiyan in 2013-2014.....	29

Abbreviations

AZii	Access to Insurance Initiative
ADB	Asian Development Bank
IAIS	International Association of Insurance Supervisors
CRI	Climate Risk Insurance
DRI	Disaster Risk Insurance
DRFI	Disaster Risk Financing and Insurance
DTI	Department of Trade and Industry
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
IAIS	International Association of Insurance Supervisors
IC	Insurance Commission, Philippines
LGU	Local Government Unit
MI	Microinsurance
MSME	Micro, small and medium-sized enterprise
PCIC	Philippine Crop Insurance Corporation
PDP	Philippine Development Plan
PHP	Philippine Peso
PSF	People's Survival Fund
RFPI Asia	Regulatory Framework Promotion of Pro-Poor Insurance Markets in Asia
SME	Small and Medium Enterprise
TWG	Technical Working Groups
UN	United Nations
USD	United States Dollar

RFPI III and Philippines case: The BMZ¹ financed the project Regulatory Framework Promotion of Pro-Poor Insurance Markets in Asia III supports insurance supervisors, policymakers and the insurance industry. It focuses on four areas: the inclusion of climate risk insurance in national priorities, product development for private and public schemes, development of digitally-supported business models and solutions for regulatory challenges related to CRI or DRI. It operates in three countries: Vietnam, Indonesia and Philippines. The Philippines context was chosen for this case study on CRI because the Philippines inclusive insurance approaches are in a rather mature stage, compared to other jurisdictions, and this case study complements the other case study on inclusive insurance. Regarding CRI, The Philippines is in an early stage of policy engagement and regulatory development likewise many other jurisdictions, however, some insights and early lessons are already emerging. This case particularly shows how a jurisdiction can expand from an inclusive insurance market towards inclusive CRI coverages - a vision for the next decade the RFPI is going to support in 3 years to come.

¹ German Ministry for Economic Cooperation and Development (Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung, BMZ)

1. Introduction and background

1.1 Objective, definitions and scope of the case study

The **objective of this study** is to raise awareness among insurance regulators on privately-led insurance coverages (products, or parts of product like bundled components or riders) against climate-induced natural catastrophes (disasters) that protect directly or indirectly vulnerable population segments and also, to discuss options for regulators how they can promote the development of Climate Risk Insurance (CRI) or Disaster Risk Insurance (DRI). We will refer to the term CRI in this study (See Box 1)

Box 1. What is Climate Risk Insurance?

“Climate risk insurance is a risk transfer solution that aims to protect individuals, businesses and countries against the negative impacts of extreme weather events that are becoming more frequent and more severe due to climate change.”²

The idea behind the concept of CRI is that climate change is making more frequent and severe natural disasters, and for most of them, there is some evidence that not only floods and droughts but actually also volcano eruptions and earth quakes are becoming increasingly frequent due to the effects of climate change.³

Climate risk insurance

- is insurance against climate-induced disaster risks: mainly drought, flood, typhoon and earthquake (debate to also include volcano eruptions as there is evidence that they are increasingly climate-induced)
 - integrates into inclusive insurance approaches more broadly, and some coverages are found in the microinsurance sphere
- Sometimes, the term disaster risk insurance is used, or the terms “extreme-weather insurance“, “index-based insurance“ or “parametric insurance “ are being used for this type of coverages, if applicable.

In its first part, the case study presents general **concepts and information** on

- Guidance of the International Association of Insurance Supervisors (IAIS)
- policy issues of publicly provided CRI schemes
- regulatory issues of privately-underwritten CRI coverages
- insights from an international survey of the Access to Insurance Initiative (A2ii)

In the second part of the study, the **Philippines situation** and their approaches to CRI are presented, including policy context, supply and demand issues, and some insights on the regulatory environment. The study finally shares ideas about what insurance regulators should be aware of, and how they could promote the development of CRI solutions, thereby advancing the policy objective of broadening of CRI against the increasing threat of climate-induced disasters.

Note that the case study will **focus on the perspective of making CRI inclusive**. That means, other supervisory challenges related to the capacity of insurers to deal with climate risk, or climate-sensitive investments will not be covered here.

² E. Väähänen, K. Nett, C. Costella, J. Mendler de Suarez, Policy Brief: Linking Climate risk insurance with shock-responsive social protection (1-2019), InsuResilience GlobalPartnership, Food and Agricultural Organisation (FAO) and United Nations (UN) Environment and UN Climate Resilience Initiative

³ The study does not explore on the debate, what types of catastrophes are clearly climate induced. For further reading see <https://www.oas.org/dsd/publications/unit/oea54e/ch05.htm>

1.2 The effects of climate change and insurance markets globally

The global effects of climate change. Climate change is a major contributor to natural hazards, while vulnerability levels rise and coping strategies of governments, insurers and consumers are often insufficient. Climate change tends to increase the frequency and intensity of extreme weather events, such as droughts, floods, hurricanes, storms, amongst others hazards, and therefore results in additional stress for societies and natural systems. Adaptive measures (e.g. building sea walls) are often not in place or cannot cope with the intensity of an extreme weather event, forcing the vulnerable to resort to insufficient, even sometimes damaging coping strategies. These strategies, such as reducing food consumption or taking children out of school, borrowing from money lenders, selling livelihood assets or migrating to urban areas or another country can trap people in poverty. Consequences of natural hazards turning into disasters are also severe for governments who have to reallocate funds in national budgets from other budget lines to confront the disasters, or for financial service providers like banks or MFIs whose asset base erodes when their borrowers cannot repay their loans.⁴

Effects on the economy. Globally, according to the MunichRe NatCatSERVICE, the insurance “protection gap” for weather related losses remains significant, with roughly 70% of losses uninsured, resulting in significant burden on households, businesses, and governments.⁵ At the macro-economic level, uninsured losses may affect resource availability and economic productivity across sectors, the profitability of firms and individual assets, pose supply chain disruptions, and ultimately impact insurance market demand. Uninsured losses may have cascading impacts across the financial system, including on investment companies and banks. Climate change repercussions on the agricultural sector for example, are severe in the Philippines. The United Nations Food and Agricultural Organization (FAO) stresses that climate change is altering production systems and compromising food security and nutrition for millions of people; farm families bear the greatest brunt of food insecurity and malnutrition as prolonged droughts and extreme precipitation affect their crop yields, expected to decline by 25% in the coming years.⁶

Effects on the insurance sector⁷. The increasing frequency and severity of disasters brings the discussion around how to ensure a sound and stable insurance sector in a context where claims are on the rise, and where modelling is more difficult to make as prediction in the context of climate change is limited. According to the IAIS, the insurance sector is affected in various ways by climate change. For example, as **physical risks** are arising from increased damage and losses from physical phenomena associated with both climate trends like changing weather patterns, or sea level rise, and events like natural disasters and extreme weather. Insurers should understand the dynamics of such extreme events, to adjust exposures through annual contract re-pricing. Insurers are also faced with **transition risks**: the transition to a low carbon economy may come with changing rules for insurer investment; or increasing **liability risks**, e.g. related to environmental liability policies or insurers not sufficiently consideration of climate change in investment decisions, or inadequate disclosure of climate risks.

⁴ Hellmuth, Osgood, Hess, Moorhead and Bhojwani (eds) (2009) Index Insurance and Climate Risk: Prospects for Development and disaster management, Climate and Society No. 2. International Research Institute for Climate and Society (IRI), Columbia University, New York, USA.

<https://iri.columbia.edu/docs/publications/Climate%20and%20Society%20Issue%20Number%202.pdf>

⁵ <https://natcatservice.munichre.com/> (accessed 16.4.2019)

⁶ <https://www.eco-business.com/news/climate-change-will-impact-philippines-ability-to-feed-its-people/>

⁷ Issues Paper on Climate Change Risks to the Insurance Sector (July 2018), International Association of Insurance Supervisors (IAIS)

This comes with strategic, operational, and reputational challenges to insurers across underwriting and investment business. While certain climate-related risk factors are long-term in nature, some are already having material impacts; for example, when return on equity drops, property in certain areas are becoming uninsurable, or changes in products and services are demanded.

Effects on the insurance consumer and focus on at-risk population. The poor, marginalized and isolate suffer most. Surveys of communities across five Asian countries found that rural households, 90% had suffers loss of life or significant damage to assets from floods, and there recovery took more than three times longer than for urban households.⁸ However, urban communities and middle-income segments are also hit severely, suffering severe financial losses, generally having very limited access to insurance cover, it at all. Generally, more vulnerable people can face greater barriers to access insurance. Vulnerable people and the poor are however more prone to being affected by disasters, as they tend to settle in disaster-prone areas, have weaker shelters and can spend less in precautionary measures.

2. Thematic learning fields of the case study

This case study intends to support the following learning objectives for insurance supervisors:

2.1 Relevance and concepts

Learning field: Understanding the relevance and concept of CRI, and the public and private models with a focus on those (private models) that are relevant for insurance supervisors

Role of insurance for adaptation to climate risk. Public climate adaptation policies and disaster risk management strategies are referring to CRI as a risk transfer tool. Insurance can play a significant role in the ability of population segments to recover from disasters through its risk transfer role: spreading and smoothing of risks, faster and more efficient recovery, certainty about post-disaster support, reducing immediate welfare losses and consumption reduction, reducing the need for budgetary changes.⁹ CRI solutions – under the broad heading of insurance market development - support the objectives of other policy spheres such as social protection, or agricultural promotion and an integrated risk management approach.

Climate risk transfer by insurance schemes. The different types of schemes are classified according to the level and type of policyholder: the micro (consumer), meso (an organisation), and macro level (government) These schemes allow to transfer the weather- and disaster related risks, and losses and damages of individuals, aggregators, and countries. The following main types can be identified, distinguishing between the level of insurance, and the type of policyholder¹⁰:

- **Macro level insurance: A governmental body is the policyholder.** Global reinsurers or transnational reinsurance pooling facilities usually provide the insurance coverage. The pool can be multi-national or national. The government can use the pay-out to cover liquidity gaps or finance disaster relief programmes after a catastrophic event. Sovereign insurance can be multi-country or national schemes (often coming as subsidized schemes). These schemes allow the policyholder to compensate the covered population for the damage and losses caused by extreme weather events. Macro-level pooling facilities at regional level are found in an increasing number of regions, such as the Caribbean island states and for

⁸ Asian Development Outlook 2019, Asian Development Bank (ADB)

⁹ Hallegate S., Perspective Paper Natural Disasters (2012)

¹⁰ GIZ, Fact Sheet Inclusive Insurance Series “Extreme Weather Events” (2019)

- Sub-Saharan African countries (ACR), ¹¹ and recently also in the Pacific Island (PCRAFI) and Central America (CCIRF). ¹²
- **Meso-level insurance: An enterprise or financial service provider is the policyholder.** Here an insurer insures the risk portfolio of the policyholder. The policyholder receives the pay-out and may or may not pass on the pay-out to the individuals. Meso-level insurance are reducing losses of aggregators, such as Microfinance Institutions (MFIs) caused by credit default currently also exists in many regions
 - **Micro level insurance: Individual persons or small entrepreneurs are the policyholder** or the designated beneficiary of a group insurance policy. The insurance is often bundled with other services that aggregators, such as agribusinesses, financial service providers or input suppliers, are providing to low income households or small farmers. Numerous microinsurance (MI) schemes at micro level hedging against losses caused by extreme weather events have been implemented in different countries, among which the Philippines is an outstanding example.

The public delivery model (red) or the private delivery model (green) can be seen in Figure 1¹³:

Figure 1: Intervention levels and the type pf policyholder

Level	Type of insurance	Policyholder
Multi-country	Macro-level insurance e.g. Multi-country risk pools	Government
National	Macro-level insurance e.g. National disaster insurance schemes	Government
Regional	Meso-level insurance e.g. Weather-based crop insurance, flood insurance	e.g. a MFI for its portfolio or a LGU
Local	Micro-level insurance e.g. Index-based insurance for small-scale farmers based on rainfall	e.g. an aggregator, group or individual, such as an agricultural input provider

2.2 Guidance of the International Association of Insurance Supervisors

Learning field: Understanding the implications of climate change for insurance markets and the IAIS Core Principles and IAIS papers

The IAIS emphasizes that insurance supervisors should understand the challenges when dealing with climate change, and how regulation and the authority’s engagement can help to reduce the protection gap and promote private-led CRI provision. Generally, recent IAIS papers are particularly relevant in this regard:

¹¹ Hermann, Köferl, Mairhöfer, Climate Risk Insurance: New Approaches and Schemes, Working Paper (2016), Allianz

¹² Pacific Catastrophe Risk assessment and Financing Initiative(PCRAFI) and Caribbean Catastrophe Risk Insurance Facility (CCIRF)

¹³ Adapted from Fact Sheet Inclusive Insurance Series “Extreme Weather Events” (2019), GIZ; and Policy Brief 1-2019 Linking Climate risk insurance with shock-responsive social protection (1-2019), InsuResilience Global Partnership

- The **IAIS Issues Paper on Index-based Insurance particularly in inclusive Insurance Markets (June 2018)** for example
 - o Highlights that the legal status of an index-based insurance product can be unclear under the insurance law or under other laws;
 - o and that setting and assessing technical provisions may be complicated, as the usual assumption that the risk is evenly distributed or even increasing over the policy period is not always the case with index-based insurances, especially those that cover climate related agricultural risks; while it also
 - o refers to key topics such as the credibility of indexes.
- The **IAIS and Sustainable Insurance Forum/SIF Issues Paper on Climate Change Risks to the Insurance Sector (June 2018)** presents, among others¹⁴
 - o Elements for insurers, which help the insurer's management to fully consider climate resilience in their strategies and actions (4.2, 35. Strategies for climate resilience), from coherent governance to skill building, educating consumers and monitoring).
 - o Relevance of the **climate risk perspective** for Insurance Supervisors,¹⁵ see Figure 2:

Figure 2: Relevance for Insurance Supervisors

Core objective	Implications of Climate Change	Potential Responses
Solvency and stability of insurance firms	Potential for physical and transition risks to pose risks for solvency of individual firms, stemming from underwriting and investment activities	<ul style="list-style-type: none"> • Supervisory engagement to quantify potential financial risks associated with physical climate damages (i.e. underwriting liabilities) • Surveys and Disclosure requirements
Market conduct, consumer protection, access and affordability, compliance	Potential for climate change render assets uninsurable (redlining); transparency for consumers on climate change practices and strategies; delivering enabling conditions for insurance product development	<ul style="list-style-type: none"> • Assessment of firm conduct on climate change issues • Supporting consumer awareness and literacy, including on risk profiles • Engagement with other policymaking bodies
Macroprudential stability	Potential for transition risks issues to pose systemic risks to the financial system and macro-economy	<ul style="list-style-type: none"> • Assessments of exposure to high carbon assets risk • Alignment of investments with climate goals

- o Applicability of **Insurance Core Principles for Climate Change**: ICPs set out a framework for supervisors to address the insurance sector with respect to climate risks, including those already material to the insurance sector (i.e. natural disasters), as well as those not currently understood as material due to knowledge gaps or high uncertainty (i.e. transition risks).
 - ICP 7 (Corporate Governance)
 - ICP 8 (Risk Management and Internal Controls)
 - ICP 15 (Investment)
 - ICP 16 (Enterprise Risk Management for Solvency Purposes)

¹⁴ Drawing on Issues Paper and on IAIS Power Point Slides (IAIS Secretariat, 10.4.2018)

¹⁵ Dto.

- ICP 19 (Conduct of Business)
- ICP 20 (Public Disclosure)
- Supervisory Approaches to climate change risks:
 - **Assessing Climate Change as an Emerging Risk**
 - Mandates and Objectives
 - Initial Assessment
 - Signalling Expectations
 - **Responding to Climate Change risks through Supervisory Practice**
 - Risk Frameworks
 - Information and Data Gathering
 - Engagement Strategies and Examination Tools
 - Stress Testing for Physical Risks
 - Examining Transition Risks: Exposure Assessments, Scenario Analysis, Alignment
 - Evaluation
 - **Collaboration and Cooperation**
 - Convening
 - Engaging with other public authorities
 - International Engagement
- The **IAIS Issues Paper on Increasing Digitalisation in Insurance and its Potential Impact on Consumer Outcomes (November 2018)**:
 - Refers to the fact that digitalisation is impacting **how insurers develop, design and underwrite their products** and that the advancement in technology.
 - This may enable the development of **more adaptable or tailored products** and the creation of new insurance products, for example: Digital Ledger Technology (DLT) may be able to seamlessly manage and instantly verify data sources.
 - Or for example, **smart contracts** – that its programmes that automatically execute the claim payment under pre-defined conditions stored in the block chain - have the potential to be fully digital and fully automated products, as could be the case for agricultural parametric/index-based insurance.
- Notably, other key IAIS Papers providing guidance on inclusive insurance are also relevant here because “Inclusive CRI” in some key aspects for example regarding transparency to the consumer, or distribution is also dealing with similar challenges as in the inclusive insurance space.
 - Application Paper on Regulation and Supervision of Inclusive Insurance Markets (2012)
 - Issues Paper on Conduct of Business in Inclusive Insurance Markets (2015)
 - Application Paper on Product Oversight in Inclusive Insurance (2017)

2.2 Role of the insurance supervisor

Learning field: Role and opportunities of the insurance supervisor in CRI

Key role of the insurance supervisor. Notably, in a global perspective, in the past years, a lot of the available CRI solutions have not been led necessarily by the private sector. Sometimes it has been the government who promoted the initiative, in other cases international organisations pushed the development, but also, and increasingly, the private sector was brought to support it. There are cases where the risk carriers are government insurers. Even in the macro- level solutions, the private sector is involved because the pool of governments, or the government schemes, will transfer the risk to the reinsurance market. However, as CRI products increasingly involve the private sector, be it in the role of a retail insurer or a reinsurer, the insurance supervisors nowadays has a key role in enabling private-led CRI their markets to enable sustainable and valuable CRI. Therefore, supervisors should understand

- The **market dynamics** in their jurisdiction: What is available, what is missing in the market? What is known (e.g. demand-side issues, data issues)?
- The **challenges of provision** for the industry in the a given market and the **opportunities for private insurers**
- What **role can CRI play** in their insurance market and where are the limitation of this approach e.g. the target group that cannot pay premium regularly?
- The **entry points for regulatory action** e.g. in the ambits of digital insurance, to reduce cost and allow new business models, and others.
- The **complementary actions**, which they can support like
 - o financial and disaster risk reduction awareness,
 - o helping to place insurance as a risk transfer tool in an integrated approach of disaster risk reduction
 - o engagement in inter-governmental or public-private committees

2.4 Inspirations from the global debate

A2ii survey on regulatory issues concerning CRI. To help understand regulatory and market concerns, the Access to Insurance Initiative (A2ii)¹⁶ has implemented a survey in March 2019. The survey asked insurers and international organisations to share their views on the challenges regarding the issues related to regulating CRI. The first part of the survey intended to identify **key barriers** to CRI regulation and implementation. The results were as follows:

1 – Concepts are not clear, not defined, and not integrated into insurance regulation:

- No clear definition or delineation what is CRI
- Index insurance is not defined by regulation, e.g. considered “betting”

2 – Regulatory framework in place that is not proportionate nor comprehensive

- Regulation does not allow index-insurance products, the indemnity principle as only approach (pay-out triggered by an event or index, not by an actual loss)
- Regulation is not proportionate, considering the particularities of this segment and product class and ...

¹⁶ www.a2ii.org

- Innovative distribution channels are not allowed
- Technological aspects are not regulated, electronic policies not allowed

3 – Regulatory authorities not clear about their role in fostering CRI

- Climate risk is not understood
- Regulatory role in CRI not clear
- Regulatory staff does not understand these products

4 – Industry is not convinced of business case

- No motivation
- No information

5 – Cross-border reinsurance

- Restriction on cross-border reinsurance transactions
- Local minimum cessions do not allow to involve global reinsurers that could share their knowledge

6 – Limited weather and risk data

- Risk data on disasters, weather and yield is not readily available in the market enabling insurer to price the risks more accurately and make insurance more affordable and accessible to vulnerable consumers

7 – The vulnerable population

- Lack of understanding of the risk and options by CRI
- Lack of incentives to enroll/purchase CRI coverage

Based on this input, the A2ii-CRI survey also collected ideas for the future. These ideas will be shared at the in chapter 3.3, alongside the Philippines experience and situation.

3. Case Narrative

3.1 Country Context Philippines

3.1.1 Country profile and economic highlights relevant to CRI

Country prone to climate risk and disasters. The Philippines is one of the most storm-prone countries in the world.¹⁷ It ranks 5th globally among countries most affected by climate risks for the period 1998-2017 based on deaths per 100,000 inhabitants, total losses in Million USD, losses per unit Gross Domestic Product and number of events between 1998-2017¹⁸. Between 1948 and 2016, typhoons hit the country 20 times on average annually, with 8-9 directly.¹⁹ The country is also affected by the El Niño Southern Oscillation, caused by the warming of sea surface temperatures. In 2015-2016; over 500,000 hectares of farm land containing 1.48 million metric tonnes of crops including rice, corn, cassava, banana and rubber were lost due to the dry spell. It affected 413,456 farming households in 16 of 18 regions with a total damage of USD 325 million in 2016.²⁰ Data shows that storms

¹⁷ ADB 2019

¹⁸ Eckstein, Hutfils, Winges, (2019). Global Climate Risk Index 2019. Germanwatch e.V. Office Bonn. p. 8.

¹⁹ According to the Philippine Atmospheric, Geophysical, Astronomical, Services Administration (PAGASA).

²⁰ FAO. (2017). El Niño and La Niña in the Philippines. Food and Agriculture Organization of the United Nations

can reduce the economic activity by 2 % (average intensity) to 23 % (severe) of local economic activity. Annual Losses due to typhoon and earthquakes are estimated to 177 billion PHB (USD 3.3 billion).²¹

Vulnerable population and Micro, Small and Medium Enterprises (MSMEs) hit hardest. The poor are most vulnerable to the effects of climate-related hazards that compromise their livelihoods, reduce crop yields, destroy homes or indirectly contribute to the increase of food prices.²² Climate change is also contributing to the stubborn level of poverty affecting 21.6% of the Philippines population earning less than USD 2 dollars/day in 2015. The poorest sectors come from farmers (34.3%), fishermen (34%), children (31.4%), self-employed and unpaid family workers (25%), women (22.5%), youth (19.4%), migrants and formal sector workers (13.4%), senior citizens (13.2%), and individuals residing in urban areas (11.5%)²³. In 2009, MSMEs incurred losses of a total USD 4.4 million (2.7% of GDP), due to floods caused by excess rainfall brought by typhoons Ondoy and Pepeng.²⁴ Negative impacts can also be measured regarding higher incidences of infant mortality, lower educational attainment and household wealth. By 2050, the World Bank estimates that there will be 140 million internal climate migrants, 60 million in South Asia alone.²⁵

MSMEs bear the effects of natural catastrophes and disasters disproportionately.²⁶ Disaster have shown significantly impacting MSME's business activities and their continuity. These effects are disproportionately higher for MSMEs because "they tend to operate in sub-optimal locations; are smaller and financially weaker; have a more limited, usually local market; tend to implement less DRR measures and be more excluded from recovery programs." The handicaps of the MSMEs in coping with disasters are twofold: i) MSMEs have less financial and technical resources to cope with the risk; and ii) MSMEs typically operate among the community and hence a disaster's impact and damages to impact of an event is not felt across the community. However, in the case of a natural catastrophe, such informal mechanisms are not working as all the members of the community are affected and the scope to help each other out informally is very limited.

Deficient coping strategies. People generally face a safety net gap when disaster relief ends. In the Philippines, remittances – to which the poorest generally have less access - compensated for nearly 65% of income lost in shocks caused by rainfall deviations.²⁷ Community assistance, a very common coping strategy, cannot take over as all in the region are hit.

3.1.2 Policy framework applicable to CRI

Government priority climate risk and risk transfer. The Philippines government sets high priority on the adaptation to climate change, with a focus on the agriculture, forestry and fishery sectors, MSMEs, as well as reducing vulnerabilities of the population more generally. Several government policies point towards this goal.

²¹ Strategic Priorities of the Department of Finance in managing disaster risk

²² Pachauri, et.al. (2015). Climate Change 2014 Synthesis Report. The Intergovernmental Panel on Climate Change. p.54

²³ Philippine Statistics Authority (PSA) (2017-150). Farmers, Fishermen and Children consistently posted the highest poverty incidence among basic sectors --- PSA. PSA. Accessed 25 January 2019. <https://psa.gov.ph/poverty-press-releases/nid/120251>

²⁴ GIZ (2019). Disaster Risk Insurance for MSMEs in the Philippines

²⁴ Department of Trade and Industry (DTI) (2017). Micro, Small and Medium Enterprises Development Plan 2017-2022. DTI.

²⁵ ADB 2019

²⁶ GIZ 2019

²⁷ ADB 2019

- The **Philippine Development Plan 2017-2022 (PDP)** focuses on certain sectors, instruments and target groups. Advancing access to insurance initiatives against the ill effects of climate risk is one of its cornerstones.²⁸ The focus is on agriculture, forestry and fisheries and the promotion of weather index insurance and area yield index insurance. It adds the dimension of reducing the vulnerability of individuals and families, e.g. by the People's Survival Fund (PSF) and proposing the use of **National Disaster Risk Reduction and Management Plan (NDRRMP) funds for risk transfer schemes, such as insurance.**
- The **National Disaster Risk Reduction and Management Plan (NDRRMP, 2011-2028)**: under thematic area 1 - Disaster Prevention and Mitigation, the DoF is committed to "communities to access effective and applicable disaster risk financing and insurance", and to "promote insurance schemes among production sector, supply sector, local communities and responders."
- The **National Climate Change Action Plan (NCCAP, 2011-2028)** covers priorities such as 1 - food security, 4 - human security, and 7 – knowledge and capacity and includes insurance as risk transfer mechanism,²⁹ seeking the enhancement of resilience in agriculture and fishing communities by way of social protection programs in these sectors³⁰.
- The **National Disaster Risk Financing Strategy (DRFI)**.³¹ The DoF has elaborated this strategy.³² The DRFI-Strategy identifies strategic priorities at three levels: national, local and individual. The programme is supported by the World Bank Group (Annex 1 shows some other engagements of development partners). The following table is derived from a case study (2015), and it shows that the various Instruments of Disaster Risk Financing, and the focus the strategy lays on the government level and for public infrastructure. Notably, the risk transfer mechanisms for private enterprises and households are considered but the schemes are limited to reinsurance, earthquake insurance and microinsurance (see table 1 and last three columns).

Insurance recognized
as key instrument for
disaster mitigation

²⁸ National Economic and Development Authority (NEDA), (2017). Philippine Development Plan 2017 – 2022.

²⁹ NCCAP (Output 1.2 Climate-sensitive agriculture and fisheries policies, plans and programs formulated, Indicator 1200.1.4, and Output 2.2. Enhanced social protection for farming and fishing communities, Indicator 1100.1.1 No. of farming and fishing communities with weather-based insurance.

³⁰ Climate Change Commission (CCC) (2011). National Climate Change Action Plan 2011 – 2028.

³¹ <http://climate.gov.ph/images/CCCWeek2017/DAY2-RiskFinancing/Strategic-Priorities-of-the-Department-of-Finance-in-Managing-Disaster-Risk--DOF.pdf>

³² Developing a Disaster Risk Finance and Insurance Strategy for the Philippines, World Bank Group et al (26.6.2018)

Table 1: Disaster Risk Finance Instruments in the Philippines at the three levels

Sector	Target	Scheme
National/Local Government	Philippine National Government	Catastrophe Bond
	Philippine National Government	Post Disaster Stand-by Loan by the Government of Japan
	Local Government Units	Risk Insurance Pool for Local Government Units
Public Infrastructure	(Metro Manila) School Building	Non-life Insurance
	Transport Infrastructure	Non-life Insurance
	Bridge	Policy Framework
	Hospital	Policy Framework
	Power Distributer (EC)	Natural Disaster insurance
Private Enterprises/ Household	Power Distributer (EC)	BCM Credit Rating
	MSEs	Reinsurance
	MSEs/Households	Earthquake Insurance
	Individual (Low income)	Micro-Insurance

Source: Sustainable Disaster Risk Finance in the Philippines: Restoration Activities after Typhoon Haiyan, Case study³³

- The **Philippine MSME Development Plan (2017- 2022)** of the Department of Trade and Industry (DTI) includes the “promotion of microinsurance at the “barangay”³⁴ level (Strengthening MSME Disaster Resilience in the Philippines)”.³⁵ A recent study on MSMEs in the Philippines noted that a quarter of MSMEs do not reopen after being hit by a major disaster, and MSME owners identified typhoon, floods, fire, theft and work place accidents as key risks.³⁶

Microinsurance market development as government priority. Since 2006, the Philippine Government, namely the DoF and the Insurance Commission (IC), have embarked on a strategic path to foster microinsurance provision since 2006. The *Medium-Term Philippine Development Plan 2004-2010* aimed at giving the disadvantaged sector preferential access to social protection, safety nets, and access to financial services and tasked the government with providing an enabling environment for private businesses and enterprises, seen as the ‘engines of growth’ in the sense that jobs and outputs are created by the private sector. Government considered that the private insurance sector has a large role to play in the development of microinsurance, whose beneficiaries would be poor households and the informal sector. Later in the process, in 2015, the target group MSMEs were added. Government and IC adopted a series of key strategies to support microinsurance market development, i.e. the “establishment of an appropriate policy and regulatory environment for the safe and sound provision of microinsurance by the private sector”, coupled with strategies to improve insurance literacy and consumer protection.³⁷

Key role of the private sector in developing microinsurance

³³ Sustainable Disaster Risk Finance in the Philippines: Restoration Activities after Typhoon Haiyan, Case study (World Bank Group and Ministry of Environment Japan)

³⁴ Smallest administrative division such as village, inner city neighbourhood or suburb

³⁵ DTI (2017). Micro, Small and Medium Enterprises Development Plan 2017-2022.

³⁶ GIZ 2019

³⁷ Malagardis, Portula, McCord, Wiedmaier-Pfister, Regulatory Impact of Microinsurance in the Philippines (2015), RFP

3.1.3 Public agricultural insurance / CRI schemes

The major public provider of a form of CRI for the agricultural sector – i.e. agricultural insurance - is the Philippines Crop Insurance Corporation (PCIC). The poverty-incidence of agricultural households (57%) in the Philippines is much higher than of non-agricultural households (17%). Among many perils, natural disasters are a major factor adding to poverty. Adverse weather conditions were the most serious problem that farmers identified in crop production in a study in 2017.³⁸ The PCIC under the Department of Agriculture (DoA) is the government organization mandated to provide insurance protection to agricultural producers against losses of crops and non-crop agricultural assets due to natural calamities, pests and diseases, and other perils. PCIC implements and manages various agricultural insurance programs (AIP) of the government. The PCIC operates as a government-owned and controlled corporation, with its operations decentralized up to the regional level.

Example three major crops insured in PCIC. As of 2015, the crop insurance scheme for rice, corn and high-value crops had 455,866/217,458 (2014/2015) enrollees and 62,343/20,422 claimants. These crops account for 95% of total premium collected and 96% of total claims paid. Notably, the number of insureds had dropped more than half from one year to the next (see the overview below, first three product lines). As of 2015, the total number of enrollees was 486,837 (see Table 2). Notably, this number has dropped considerably.

Table 2: Agricultural insurance products of 2014 and 2015

Product line	No. of enrollees		No. of claimants	
	2014	2015	2014	2015
Rice	312,749	147,725	49,745	16,946
Corn	84,588	40,315	11,619	3,339
High-value crops	58,529	29,418	979	137
Livestock	70,527	68,663	349	201
Non-crop agricultural asset	89	8,331	89	90
Term insurance package	192,385	192,385	10	102

Source: 2014 and 2015 PCIC lists, from PIDS Study (2017-39)

In 2013, PCIC had a much higher coverage with 732,654 small farmers and fisher folks enrolled. This makes an 8% penetration rate in 2013 (as compared to the total estimated number of small farmers and fisherfolks).

Challenges of the PCIC. Among its main challenges figure “Increasing coverage rate of crop insurance among farmers remains to be a challenge in a highly-subsidized crop insurance program of the Philippines, for example, Government subsidies for paddy was on average 61% of gross-premium from 1981 to 2014.”³⁹

Limited coverage of PCIC and reasons for non-availment of crop insurance. PCIC has a rather limited coverage compared to the number of farmers in the country.⁴⁰ An impact evaluation of 1,061 farms in a survey showed that between 13 and 24 % had crop insurance.⁴¹ Some of the reasons for non-availment include

- documentary requirements are difficult to comply,
- not being aware of crop insurance,

³⁸ Crop Insurance Program of the PCIC, Integrative Report from the Five Case Regions in the Philippines, Discussion Paper Series No. 2017-39 (Philippine Institute for Development Studies, PIDS)

³⁹ PIDS, 2017-39.

⁴⁰ In Focus: Competitive markets and enabling policy environment, GIZ-RFPI 2016

⁴¹ PIDS 2017-39

- not a requirement for obtaining credit or that
- farmers are not satisfied with the amount of cover.

Other disaster management schemes at macro level for national and local government units. The Department of Finance is running several insurance schemes at the macro level. Some of the schemes are⁴²:

- o The **Catastrophic Risk Insurance Program** that protects national and provincial government agencies against the financial losses from severe natural disasters. The programme covers 25 provinces. The policyholder is the Philippines Bureau of the Treasury.⁴³ This programme was created by the Joint Memorandum Circular No. 2017-7 of the DoF and Department of Budget and Management (DoBM).
- o A **parametric insurance pilot** for insuring government assets typhoon and earth quake that is 100 % reinsured⁴⁴
- o A private sector catastrophe pool, the **Philippines City Disaster Insurance Pool** (PCDIP) supported by the Asian Development Bank (ADB). The PCDIP will be structured as a dedicated insurance pool to provide cities with cost-effective, parametric insurance providing near-immediate pay-outs for post-disaster response. Each city will make premium contributions which reflect their risk profiles.⁴⁵

CRI solutions for the vulnerable are lacking. In summary, the various publicly provided schemes for disaster risk management under the DRFI Strategy are focusing on insurance for government and for public infrastructure. Other target the agricultural sector – farmers and fisherfolks. However, CRI for vulnerable people and business in the Philippines are lacking behind. Poor households, wage labourers, MSMEs and small farmers face a severe protection gap. In case of disaster, they may receive some emergency assistance. However, their individual assets and income streams are not protected.

Vulnerable households, MSMEs and small farmers face a protection gap

3.1.4 Regulatory and supervisory framework applicable to privately-led CRI

The Insurance Code (2013) and its subsequent regulations (Circulars, Memorandum) is the legal framework applicable for any kind of privately provided insurance. Under that roof, microinsurance is a regulatory entry point for inclusion and also for CRI. Table 3 presents the three phases of the microinsurance market development approach in the Philippines in a decade (2006 – 2015).

Table 3: Three phases in policy and regulation of microinsurance (as of 2016)⁴⁶

Element	Strategic Objectives /Regulatory Provisions
Phase 1: 2006 – 2009	- Circular creating MI-MBAs, and defining microinsurance, setting product and intermediary standards; microinsurance logo (2006)
Regulations	- Lighter Know-your-client requirements

⁴² A complete listing would go beyond the scope of this document.

⁴³ Philippines parametric catastrophe risk insurance programme (effective July 2017) Slide 5, 13

⁴⁴ World Bank Group et al– Disaster Risk Finance and Insurance Strategy for the Philippines (slides, 26.6.2018)

⁴⁵ ADB Project Concept Paper, Proposed Loan Philippines: City Disaster Insurance Pool Project (PCDIP), June 2018

⁴⁶ Wiedmaier-Pfister and Chiew, Regulatory Impact Assessments: Microinsurance Regulations in Peru and the Philippines, Access to Insurance Initiative (A2ii, 2017)

Element	Strategic Objectives /Regulatory Provisions
Phase 2: 2010 – 2013 Strategies and adapted regulations	<ul style="list-style-type: none"> - Joint formalisation approach across supervisors - Regulatory Framework and regulations on agents/brokers - Financial Literacy Road Map - Alternative Dispute Resolution - Separate performance monitoring of microinsurance
Phase 3: 2015 onwards Regulation Strategies	<ul style="list-style-type: none"> - Distribution Channel and Customer Protection framework: Enhanced Regulatory Framework regulating microinsurance intermediaries and channels, product bundling and reinsurance <p>Strategic Frameworks:</p> <ul style="list-style-type: none"> - Micro Agri-Framework - Micro Pre-need Framework - Micro Health Framework

Microinsurance-specific regulatory provisions – are they relevant for CRI. The dedicated regulatory framework for microinsurance has been continually adapted as presented in table 3 above. In many ways, this framework is generally applicable to privately-offered CRI products or bundles when the beneficiaries are poor and small and micro-entrepreneurs. Its main elements of phase 1 and 2 are valid for CRI coverages: the microinsurance definition, the new tier of providers, product-related rules, distribution-related rules, alternative dispute resolution and supervisory system for microinsurance based on performance indicators. Considering the regulatory changes after 2015, the Microinsurance Agricultural Framework adopted in 2015 remains a strategic framework and is not implemented at present⁴⁷. The lessons in Box 2 from microinsurance market development and regulation seem to be equally valid for CRI market development.⁴⁸

Box 2. Insights from regulatory impact studies in microinsurance - are these lessons from the Philippines relevant for CRI?⁴⁹

Regulatory impact studies (RFPI 2015, and A2ii 2017) were drawing some overarching strategic lessons from the microinsurance regulatory framework. These lessons were related to the need to

- a) further diversify product lines in order to broaden access and tailor to a wider range of needs,
- b) continue encouraging commercial insurers to participate in the microinsurance market and
- c) explore if the diversity of distribution models should be increased.⁵⁰

These lessons seem to be equally valid for making CRI more inclusive and market-led.

Legacy in microinsurance market development as strong basis. The past thirteen years of microinsurance market development in the Philippines have built important public and private know-how and assets that serve as ground to improve disaster-related products and services.

⁴⁷ A special for private-led agricultural insurance. A regulation was adopted in 2015 with the Agricultural Microinsurance Regulatory Framework (Circular Letter 3015-53, 15th October 2015). See also Case Study, The Philippine Approach to Inclusive Insurance Market Development, Bulos and Portula, GIZ (2016)

⁴⁸ An example for cost reduction: accepting electronic messages as evidence of policy coverage, rather than requiring policyholders to have a physical document, can help to reduce costs of provision (is allowed in the Philippines)

⁴⁹ Malagardis, Portula, McCord, Wiedmaier-Pfister Regulatory Impact Assessment Microinsurance Philippines (2015) and A2ii 2017

⁵⁰ Malagardis, Portula, McCord, Wiedmaier-Pfister, Regulatory Impact Assessment Microinsurance Philippines (2015) and Wiedmaier-Pfister and Chiew, Regulatory Impact Assessment in Peru and in the Philippines, A2ii (2017)

- Large range of microinsurance products (210 approved, of which 39 have some form of disaster coverage); experience with prototype products, some front-runners
- Capacity and know-how of industry in inclusive insurance
- A range of well-proven delivery channels close to the consumer such as Rural Banks, Pawn-shops and Microfinance Institutions (Microinsurance Mutual Benefit Organisations)
- Interest of the industry, and some being motivated to serve low-income and vulnerable groups
- Awareness of policymakers and authorities (Insurance Commission, Central Bank, Cooperative Development Authority) and the integration of various policy spheres
- Awareness of general public with an improved level insurance literacy, 32 million insured Philippines having or having had exposure with microinsurance
- Experiences in organising themselves via a strong lead-agency and Technical Working Groups (TWG) as platforms (see below and Box 3).

Box 3. Technical Working Groups as strategic and working platforms in microinsurance from 2008 onwards⁵¹

The TWGs in The Philippines allowed for a consultative and collaborative process involving the private sector. Since 2008, the design of the microinsurance policy framework has been led by the IC and the DoF, with significant technical discussions within and contributions from TWGs.

TWGs are working groups comprising public and private stakeholders whose roles are to design and implement specific aspects of the microinsurance regulations. The TWGs were used as a platform for collaboration and dialogue, or joint learning and working⁵². Each TWG usually has a designated theme but the work is in-depth and wide-ranging; they resolve over a myriad of issues, from strategy, technical work such as product standardisation, to reporting formats.

TWGs were also accountable to predetermined deliverables and have established procedures to ensure proper stakeholder consultation and implementation take place. TWG were organised with the help by two international development partners supporting microinsurance (Asian Development Bank and its Japan Fund for Poverty Reduction and GIZ with its “Microinsurance Innovations Project for Social Security (MIPSS)”, later followed by the RFPI project).

The industry associations Philippine Insurers and Reinsurers Association (PIRA) and Philippine Life Insurers Association (PLIA) have set up respective microinsurance committees that regularly discussed issues and plans around microinsurance. These groups were represented on the TWGs in various ways, and played a key role in the implementation of the financial literacy advocacy work. The Rural Bankers Association (RBAP)⁵³ took on a strong role in advocating for the MI agent status for Rural Banks, training Rural Bank staff, as well as developing a one-stop shop to assist Rural Banks in the registration process as agents.

Some of these regulations, or regulatory themes seem to be particularly relevant for CRI. Among these are the following provisions or themes:

- **Microinsurance regulations** applicable for the embedded or bundled catastrophic covers, and non-life products. Are these regulations proportionate, are the reinsurance rates adequate?
- The Micro Agri Framework of 2015, which is a **strategic framework for privately-driven agricultural insurance**, developed between DoF and IC in a TWG

⁵¹ A2ii 2017

⁵² TWG meetings have been organized by the two development partners supporting microinsurance (Asian Development Bank and its Japan Fund for Poverty Reduction and GIZ with its “Microinsurance Innovations Project for Social Security (MIPSS)”, later followed by the RFPI project).

⁵³ RBAP is a national network of Rural Banks and has approximately 600 Rural Bank members (See www.rbap.org)

- **Index-insurance regulations** to allow for non-indemnity- based products (these regulations are not adopted yet)
- **Reinsurers** willingness to accommodate climate-induced and catastrophic risks
- The option to apply **risk-adapted rates for the regions** according to their risk profile (some are more, others less- disaster prone)
- **Digital insurance regulations** (digitally supported distribution, digital disclosure e.g. by using phones or e-contracts)
- **Consumer protection** regulation e.g. on disclosure requirements, or on microinsurance sector transparency, such as the performance standards (IC Circular Letter 5-2011 - Performance Standards for Microinsurance)
- **Pricing** as referred to in the circular on premium rates for disasters. Circular Letter 2016-55 regulates the “strict implementation of the minimum rates for earthquake, typhoon and flood covers and related guidelines”. The prescribed rates as per the circular are the same for all regions, however, the level of disasters varies hugely, and therefore, location specific pricing would be important

The perspective of the Insurance Commission related to CRI. For some time, the IC was of the view that disaster risk coverage is readily available for the Philippine population as many traditional and microinsurance insurance are available. They have also supported the development of the Micro Agri Framework. Recently, IC has been considering in which way they can assume a stronger role in promoting and enabling CRI.

The IC has also been engaging in two government/ donor committees and a Task Force recently.

The engagement of IC in a severe disaster.⁵⁴ In 2013/2014, the IC assumed a particular role in a striking disaster. When Typhoon Yolanda/Haiyan (See Annex 3 for some more facts on the disaster) hit the northern part of the country in November 2013, the IC established a Claims Action Centre in the region. Due to the extent of the damage, some companies used mass onsite assessments of areas rather than prepare individual claims, reducing the clients’ documentation requirements. An insurer applied simplified claims form. And last but not least, the IC allowed to use satellite imaging and crisis mapping for claims validation.

3.1.5 Privately provided CRI products in the Philippines

Lack of data. There are privately provided CRI products. However, these products are not separately identified within the products approved by the IC. CRI products can be found in both the microinsurance and the traditional insurance product registry. These are however not monitored in a separate register.

- **Traditional fire insurance** for example, has an annex of natural disasters. Information on other CRI coverages is yet to be collected.
- **Microinsurance products as a subset.** Among the 210 (2019 data) registered life and non-life MI products, some 39 product are having catastrophe cover. A more detailed breakdown is not available, i.e. the product registry does not provide a deeper level of detail e.g. on the type of CRI coverage. Table 4 provides a historical snapshot. Annex 2 provides more historical data on microinsurance development.

⁵⁴ Swiderek and Wipf, Adding the disaster recovery process, The effectiveness of microinsurance service providers response to Typhoon Haiyan, Microinsurance Network and Gesellschaft für Internationale Zusammenarbeit, GIZ (2015)

Table 4: Insurance and Microinsurance Sector Data (from the Insurance Commission)

	2010	2012	2014	2017	2019
Coverage	3.1 million individuals	19.8 million persons/risks	27.9 million persons/risks	32.3 million persons/risks	
Microinsurance Products	Mostly credit life	119 MI products (69 life, 50 non-life)	162 registered products (81 life 81 non-life)	210 microinsurance products approved by the Philippines' Insurance Commission from the year 2006 composed of <ul style="list-style-type: none"> - 70 products from the Life Sector - 86 products from the Non-Life Sector and - 54 products from the MBA Sector. 	of which 30 with a disaster cover
MI-MBAs licensed	6	18	22	22	22
Commercial Companies with MI-Business	Few commercial insurance companies with Microinsurance products	52 insurance companies	42 insurance companies (18 life and 24 non-life)	22 insurance companies (11 life companies and 11 non-life companies)	

Industry is currently reluctant to offer CRI. Insights from discussions with several commercial insurers reveal a reluctance to expand their offerings of CRI products (See Box 4). The high incidence of disasters in the Philippines, and the experience with the typhoon Haiyan in 2013 and disasters in the following years made the industry reluctant to offer CRI coverages. This due to the continued losses absorbed by different organizations during and post the 2013-2015 disasters. Interviews with three non-life companies revealed that loss ratios are high, and reinsurance companies are reluctant. Ideas for improving this are bundled coverages and mandatory products.

Box 4. Risk appetite of the industry is low and options

- Due to heavy rains, flooding, and frequent typhoons in the country, those who offered typhoon and flooding coverages had discontinued the products due to the claim's ratio (85% and above). To cease from incurring more losses, these providers chose to offer BBK products that offer a combination of personal accident and fire insurance. Or, they offer a property insurance covering lighting, fire and earthquakes.
- Commercial providers in the past have offered technology-based/weather-based insurance products that proved to be unsustainable. A focus-group study determined that the lack of viability was due to the following challenges:
 - high cost of product development resulting from the shortage of local consultants;
 - data reach, accuracy, and reliability as provided by the Philippine Atmospheric Geophysical and Astronomical Services Administration (PAGASA), and
 - cost of data as charged by accredited private index data provider.
- Reinsurance companies are hesitant to assume Climate Risk Insurance portfolios (requires validation).

Ideas for increasing outreach of CRI products

- Not to create a standalone CRI product but focus on bundling the CRI product with a traditional life and non-life products. The strategy could be to use CRI as “goodwill product”.
- Engage in partnerships of cooperatives with Local Government Units could be another avenue to scale penetration as Barangays are mandated to allocate 5% of their annual budgets for DRRM (disaster risk and relief management) projects.
- Offering CRI as rider on a mandatory product, when for example cooperative members compel their members to purchase insurance.

3.2 Vision and stakeholders for developing and expanding CRI

Achievements to date lacking non-life and CRI. The Philippines have come a long way in achieving insurance coverage for its population.

- In microinsurance, to date, over 32 million people are having microinsurance. However, the type of cover they are having is still predominantly credit-life insurance.
- Separate data or a detailed breakdown of risks or people covered in microinsurance non-life is not available. The assumption is that these coverages are mainly accidental insurance and hospital cash. Despite the increase of non-life covers in microinsurance (25.8 % from 2017 to 2018 according to a statement of the IC), there is no evidence that CRI has a significant share.
- The PCIC covered almost 500,000 (2015) insured (small farmers and fisher folks), and there are
- Various schemes at macro level (national, provinces and LGU) in the form of public funds for disaster insurance.

Making CRI more inclusive requires new efforts at the macro, micro and meso levels

The magnitude and frequency of disasters as of today, and the expected increase in the light of climate change require more efforts to include a large part of the vulnerable population and make CRI more inclusive.

Market failures on CRI and disaster risk insurance discounts the role of risk transfer mechanisms by the private insurance sector at the household level. It requires the government to provide emergency and relief assistance activities during disasters, as a public good, independent of private insurance sector share of the risk.

A vision for the future to close the protection gap and make CRI inclusive could be formulated as

“to provide coverages against climate and disaster risk to mitigate the economic effects of climate risks for every vulnerable Philippine person and enterprise”.

Stakeholder engagement. To make this vision a reality, different strategies should be in place, and implementation pathways could be taken, where public and private stakeholder understand and assume their respective roles effectively.

The following **public stakeholders** are key partners to be called upon to support this vision (see Table 5).

Table 5: Public stakeholders with a role in promoting CRI⁵⁵

Stakeholder	In charge of	Role related to CRI
Disaster authority	Disaster management	Data provision, support modelling, sharing risk awareness materials, integrate insurance as a key component of Disaster Risk Reduction
Department of Finance	Financial sector, insurance	Enabling public policies recognising insurance at the core of a disaster risk management strategy, subsidies, enabling tax free climate risk insurance
Department of Agriculture	PCIC	Smart subsidies for smallholders, integration of the private sector in interventions aiming to promote the resilience of value chains
Department of Interior and Local Government		Purchasing meso-level coverage where the local government units (LGU) are policyholders
Central Bank	Supporting financial and insurance education	Promote awareness on risk exposure and risk transfer mechanisms for the entire population
Philippine Atmospheric Geophysical and Astronomical Services Administration (PAGASA)	Weather and risk data	Providing accurate weather and risk data
Telecommunication authority	Mobile phone / digitally supported insurance	Mobile payments Electronic contract transmission
Insurance Commission	Insurance regulation and supervision	<ul style="list-style-type: none"> • Regulating index-insurance • Carry out comprehensive assessment of all the regulation for climate risk insurance – enabling innovation and product development • Participating in disaster risk committees of the government • Making insurance regulation proportionate if pertinent

The **private stakeholders** in the insurance sector are mainly the same as in the microinsurance market however, this needs to be explored further with a risk and climate lense, e.g. data providers):

- Life insurers, composite insurers, non-life insurers (commercial, cooperative and mutual)
- Global reinsurers
- Aggregators that serve as channels, and intermediaries, such as MFIs, Rural Banks, cooperatives, pawn shops, agricultural input providers
- Industry associations PIRA and PLIA for commercial insurers, and RIMANSI as service centre of the Microinsurance Mutual Benefit Organisations
- Service providers (weather data, technical support)

Multi-stakeholder engagement under a National CRI Task Force: In microinsurance market development, the TWG have proven highly effective to create strategic and working platforms for stakeholders, and to coordinate, share experiences and jointly work towards a strategic goal (see above Box 3 on the TWG).

⁵⁵ The list is not exhaustive, in other jurisdictions, the ministry in charge of MSME, or the Ministry of Environment that may leverage funds from climate change adaptation can also play a role.

Related to CRI, the idea is that public and private stakeholders get together, to share experiences and lessons, align with Public Policy and Laws; for example, on the use of the National Disaster Risk Reduction and Management Fund, as CRI premium subsidy, discuss challenges and potential strategies and activities for the way forward. There are three Task Forces organized on: Policy and Regulation; Business Models and Use of Technology. This may require the engagement of development partners such as the RFPI III, supporting the Task Force and TWGs.

An assessment, concerning the regulations that are particularly relevant for CRI – and might need to be adapted - is yet to be made.

3.3 On-going activities, challenges and ideas for the future

The following ideas are being discussed at present:

The expectation is that there will be more publicly provided CRI, including new segments:

- **Broadening index-based insurance for agriculture via PCIC.** Planned national implementation of weather-index based insurance using the Mindanao pilot experience, is indicated in the PCIC 2017 Plan. The idea is to create a special formal financing window for agriculture credit through the Land Bank of the Philippines, which is bundled with agriculture insurance products of the PCIC.
→ Notably, this can be a challenge for privately offered agricultural insurance, as the PCIC insurance are highly subsidized and are crowding out other more commercially funded insurances.
- **Publicly finance CRI for the poorest.** The idea is seeking models where the premium would be funded by the government for the poorest and most vulnerable. Examples are the use of Government funds for premium subsidy for the poor to manage relatively high premium rates in agriculture insurance, and expand insurance uptake. Or public fund allocation through the People's Survival Fund (PSF), although clarification is needed on the definition of using PSF for the insurance needs of farmers, agricultural workers and other stakeholders.
→ It is however not clear yet if public funding for financing the premium of such schemes can be leveraged.

Stakeholder coordination:

- **The insurance supervisor IC is engaged** in national committees on Disaster Risk Financing⁵⁶, and a DRFI Working Group being led by the DRFI Project of the World Bank. The Working Group is on targeting households and Small and Medium Enterprises (SMEs).
- **The Philippine Government seeks to create an independent Disaster Risk Reduction Authority (DRRA)** equipped to engage with new stakeholders, particularly in the field of risk transfer and insurance. The creation of the DRRA is prioritized as a Legislative Agenda for 2022. It is yet to be explored how the IC could engage with the new authority.
- **Regulatory challenges: A deeper assessment of the regulatory and supervisory challenges is require, for example, are policy form adequate, are the type of disasters sufficiently clear, and are**

⁵⁶ <http://www.climate.gov.ph/images/CCCWeek2017/DAY2-RiskFinancing/Strategic-Priorities-of-the-Department-of-Finance-in-Managing-Disaster-Risk--DOF.pdf>

Sandboxes intended and/or allowed by the Insurance Commission, and are digital finance/Insurance regulations supportive to low-cost insurance provision.

Inspirations from the global level. The A2ii survey results provide additional insights derived from contributions of insurers, other players from the industry and development partners. The ideas in table 6 are based on the results of an A2ii-CRI survey (March 2019) in which 47 respondents shared their views about current barriers (see chapter 2.4) and ideas for the future.

Table 6: Ideas from A2ii Survey, and application in the Philippines

N°	Ideas for the future (A2ii input)	Philippines
1.	Have a vision to develop this market (private CRI)	Public stakeholders such as the DoF, and government plans include this vision and they document it in several climate-related strategies and plans. As the lead agency for facilitating communities' access to effective and applicable disaster risk financing and insurance in the National Disaster Risk Reduction and Management Plan, Thematic Area 1: Disaster Prevention and Mitigation, the DoF can become a powerful promoter of private-led CRI provision by enabling private sector access to Government funds for CRI premium subsidy, dovetailed with the formulation of supportive CRI policies and regulations through the IC.
2.	Assess market to determine barriers and opportunities	Diagnostic study on CRI market and regulation could provide information on demand of consumers and supply in the market, including their quality
3.	Engage in a multidisciplinary task force with other government agencies	On-going. Public-private and multi-level government task force on CRI will have its first meeting in May 2019.
4.	Take a full proportional approach to risk, e.g. allowing innovative distribution, and technology solutions	Topics may be: innovative distribution avenues, reinsurance, rates, digitalisation of insurance business /InsurTech There are some first insights, however, a full mapping of regulatory challenges as they may hinder inclusive CRI can be a step forward.
5.	Allow index-based insurance, parametric insurance	Pilot testing of new agriculture insurance products including index-based.
6.	Flexible and speedy approval of new products	Discuss if CRI products need to be identified/ separated out from other business, enabling flexibility for these type of products
7.	Allow insurance products to be mandatory if they pass quality standards agreed by the regulator	Position to be discussed in intergovernmental committees
8.	Sandbox approach to experiment	Allowing innovations but watching closely to avoid disturbances in the sector by collapses of pilot schemes or a lack of transparency Ensuring that new models are client-centric offering effective insurance solutions to the consumer

N°	Ideas for the future (A2ii input)	Philippines
9.	Improve coordination among different regulations (Insurance, telecom, Central Bank BSP etc.)	On-going under microinsurance. Planned under CRI Task Force
10.	Focus on those that can afford insurance (poorest to be covered by government)	Solution for the poorest segment requires subsidies. The use of Government funds for CRI premium subsidies will be clarified in the RFPI TWG on Regulation and Policy.
11.	Get together with the private sector more often, to identify concrete regulatory solutions	In the past, many Technical Working Groups were implemented to develop standard products, and discuss strategies and microinsurance regulations (see Box 4)
12.	Improve cooperation of meteorological services with industry and regulator	To be defined.
13.	Develop indicators to monitor performance	Can or should the microinsurance performance indicators be expanded to include CRI?
14.	Make sure people really benefit from the insurance, ensure quality, client value (not only more people insured) and demand-orientation of products	IC to implement test-purchases, understand demand e.g. by implementing Focus Groups and demand studies ⁵⁷
15.	Help to improve financial literacy of people related to CRI	New approaches should be designed and implemented.
16.	Integrate insurance into climate smart agriculture	Look out for such models and discuss the potential role the regulator may be able to assume here
17.	Be proactive (as regulator)	Identify further areas where the supervisor can engage in (committees, themes e.g. include tax exemptions,

⁵⁷ A RFPI study identified that of the families interviewed, over 70% had as top worry natural calamities, right after sickness and health. From “Public Financial Attitudes, behaviours and Online Transaction in Leyte and Agusan del Norte (GIZ, RFPI, April 2017)”

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Annex 1 – Other development projects in Disaster Risk Reduction in the Philippines

The Philippine Crop Insurance Corporation with the United Nations Development Programme (UNDP) implemented the Weather Index-Based Insurance Mindanao Project in Regions X and XI, in 2015-2016. The project produced a national pricing model for a weather index insurance for rice, using weather parameters, soil properties, and rice crop varieties.

GIZ partnered with IRRI, sarmap and Allianz Re for the Remote Sensing-based Information and Insurance for Crops in Emerging Economies (RIICE) in the Philippines, Vietnam, Cambodia and India. RIICE developed a Remote Sensing Area Based Yield Index Insurance product for Nueva Ecija, Leyte, Agusan del Norte, Philippines in 2013-2015.

The ADB loan agreement with the Philippines for the Inclusive Finance Development Program in 2018-2021, is providing technical assistance on the participation of the private insurance sector in agriculture insurance.

GIZ is implementing the Sustainable Coastal Protection through Biodiversity Conservation in Coastal Ecosystems Affected by Typhoons in the Philippines (ProCoast) in 2019-2021. ProCoast aims to improve political and legal framework conditions for species and coastal protection, apply innovative protection and management measure, and advance the knowledge and awareness of relevant interest groups on coastal ecosystems. The project works directly with Local Government Units and fisherfolks in Region 6⁵⁸.

⁵⁸ Department of Environment and Natural Resources – Foreign-Assisted and Special Projects Service. Sustainable coastal protection through biodiversity conservation in coastal ecosystems affected by typhoons in the Philippines (ProCoast). DENR – FASPS. Accessed 25 January 2019. <http://faspselib.denr.gov.ph/taxonomy/term/1004>

Annex 2 – Microinsurance Data 2012- 2016

Regulatory Impact Assessment (RIA) on Microinsurance Indicators in the 3 Impact Dimensions : Philippines Microinsurance (2012-2016)



	Indicators	Values (end of Dec 2012-2016)																														
Market development (quantitative data)	1) # of insurers engaged in MI	Fluctuating: 30 (2012), 52 (2013), 63 (2014-15), 44 (2016) and 42 in 2017 composed of 22 MI-MBAs, 11 life and 9 non-life. Total # of insurers (9/2017) = 171 (4 composite, 27 life, 60 non-life, 35 MBAs, 16 pre-need companies, 28 HMOs and 1 reinsurer)																														
	2) # of MI Intermediaries licensed	Fluctuating: 125 (2012), 105 (2013), 170 (2014), 132 (2016) and 135 in 2016, 51 of which were rural banks.																														
	3) # of Products approved	162 products as of 2014 (from 119 in 2012). 81 life and 81 non-life products. Plus 26 new products were approved in 2015-2016.																														
	4) # of Microinsurance coverage (lives and properties insured)	Increasing: 19.9Mn (2012), 23.7Mn (2013), 27.9 Mn (2014), 28.6Mn (2015), 27 Mn (2016) and 32Mn in Sept 2017. MBAs are leading with 63% share of MI coverage. Life sector had a robust growth of 32% in 2015-16. Non-life has declined production by 63% in 2015-16. Growing portfolio: Microinsurance represents 46% of industry coverage and contributes 2.3% of industry net written premium in 2014 (1.7% in 2013).																														
	5) # of Lives covered (MI-MBAs and Life companies)	Increasing: 11.8Mn (2012), 15.8Mn (2013), 18 Mn (2014), 21.6Mn (2015) and 24.3Mn in 2016 or 90% of MI coverage.																														
	6) # of Non-life insurers' production	Declining: 8.1Mn (2012), 7.9 Mn (2013), 9.9 Mn (2014), 7Mn (2015), and 2.7Mn in 2016 or 10% of MI coverage.																														
Institutional development (qualitative data)	7) Diversity of business models	There is diversity of business models in the market in terms of variety of products and distribution channels. Some are optimizing use of technology in the delivery of MI. Two commercial insurers have portfolios dedicated to MI.																														
	8) Magnitude of formalization	The 22 MI-MBAs and partner-agent models of 34 rural banks is a direct market response to formalization regulation since 2010 . The two coop insurance societies (CIS) have growing MI portfolios. The CIS are increasingly absorbing the insurance needs of primary coops which are otherwise informal.																														
	9) Supporting services and platforms	There is an increasing MI advocacy , public awareness, policy dialogue, and legislative measures being initiated by various stakeholders such as the associations of insurers (PIRA, PLIA, RIMANSI), Cebuana Insurance Solutions and offices in Congress																														
	10) Insurance Commission capacitated and restructured in terms of MI	Broad-based approach to capacity building and adjusting structures Microinsurance is institutionalized in the amended Insurance Code (2013) . There are initiatives of legislation for index insurance and MI. New MI frameworks (enhanced, microhealth, agri, pre-need) and various regulations were issued in 2015-2017.																														
	11) Other authorities and development agencies engaged	MI is fully integrated in the National Financial Inclusion Strategy of the country.																														
Client value (quantitative data)	12) Claims /loss ratio in microinsurance (2012-2016)	<table border="1"> <thead> <tr> <th>Year</th> <th>2012</th> <th>2013</th> <th>2014</th> <th>2015</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>Overall</td> <td>29.7%</td> <td>26.2%</td> <td>26.0%</td> <td>40.37%</td> <td>52.19%</td> </tr> <tr> <td>MBAs</td> <td>25.7%</td> <td>24.1%</td> <td>27.5%</td> <td>35.30%</td> <td>80.15%</td> </tr> <tr> <td>Life</td> <td>45.2%</td> <td>21.2%</td> <td>50.2%</td> <td>55.70%</td> <td>54.40%</td> </tr> <tr> <td>Non-Life</td> <td>18.3%</td> <td>33.1%</td> <td>15.64%</td> <td>30.10%</td> <td>22.02%</td> </tr> </tbody> </table>	Year	2012	2013	2014	2015	2016	Overall	29.7%	26.2%	26.0%	40.37%	52.19%	MBAs	25.7%	24.1%	27.5%	35.30%	80.15%	Life	45.2%	21.2%	50.2%	55.70%	54.40%	Non-Life	18.3%	33.1%	15.64%	30.10%	22.02%
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Annex 3 – The Typhoon Haiyan in 2013-2014

Disaster response in the Philippines insurance sector after the Typhoon Haiyan/Yolanda (Nov. 2013- January 2014)

What the regulator did: After the typhoon on November 8, the Insurance Commission coordinated with various industry stakeholders and associations on November 12 and a resulting Memorandum was submitted to the DoF on November 12 to provide a plan for expeditious processing of insurance claims through:

- Establishment of Claims Action Centre (CAC) in Tacloban to process claims of traditional insurance (of which 3 for microinsurance) and its public announcement to ensure the public of expeditious processing of insurance claims
- Submission by all insurance companies of a master list of policyholders in the typhoon stricken areas to assist with reviewing the appropriateness of claims payments and for checking the names of victims
- Authorization of the initial payment scheme for life insurance of PHP 10,000 (USD 226) or 50% of benefit paid upon submission of minimum documentation requirements, with the balance to be paid upon receipt of standard requirements; this scheme follows the precedent set by RIMANSI/MBAs' during the 2011 typhoon Sendong.
- Enforcement of a premium payment moratorium for 90 days

Insurance Commission also allowed satellite images and crisis mapping for claims validation. This was essential for the expedient claims process conducted by one microinsurance provider.

Microinsurance pay-outs provided quick liquidity of PHP532 million (USD 12 million) to 111,000 insured members of the cooperative and microfinance organizations, in addition to Government response and rehabilitation initiatives. This data as of July 2014 was expected to still increase of about 10,000 additional claims (USD 1.3 million) thereafter. Over 90% of the claims paid were for calamity products.

Complementary and immediate in-kind support: Card MBA, the largest Microinsurance Mutual, had a disaster response team that helped with recovery. Other microinsurance providers engaged in providing in-kind support.

Source: Swiderek and Wipf, 2015

Study on Typhoon Haiyan in 2013/14: In 2014, a study identified that calamity cover comes mostly as bundle (2014 data)⁵⁹. The study was implemented in the framework of the typhoon Haiyan (Yolanda of November 2013). It shows that calamity coverages are most often part of a bundled insurance package. The study identified the following issues:

- **Definitions of the weather events** that would be considered as a calamity vary across companies; however most policy contracts indicate typhoon, flood or have the catch-all phrase “acts of nature”.
- **Proof of damage.** One provider does not have a specific definition for calamity. Payment in the event of a disaster is dependent, in some cases, on the damage to the property, whether the residence is totally/irreparably damaged, otherwise the claim would be denied.
- **Mandatory or group coverage.** One organization included calamity insurance as part of a mandatory package and another provider sold the product to the aggregator so all of their clients were automatically covered.
- **Voluntary or riders.** The other calamity offers were voluntary products. One company has calamity riders attached to other products.
- Generally, the study identified a **flat benefit amount** of PHP 4,000-5,000 (USD 90-113) and can increase to PHP 10,000 (USD 226) if other conditions are met.

⁵⁹ Case Study, The Philippine Approach to Inclusive Insurance Market Development, Bulos and Portula, GIZ (2016)