

Microinsurance Innovations Project (MIP)
in the Philippines
Appraisal Mission Report | January 2008

gtz

Microinsurance Innovations Project (MIP) in the Philippines

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Box 1- Abbreviations

ADB – Asian Development Bank
AWO International - Arbeiterwohlfahrt International
BMZ - Bundesministerium für wirtschaftliche Entwicklung und Zusammenarbeit
CARAGA -
CARD – Center for Agriculture and Rural Development
CARD MBA- Center for Agriculture and Rural Development Mutual Benefit Association
CARD MRI- Center for Agriculture and Rural Development Mutually Reinforcing Institutions
CCA – Canadian Cooperative Association
CCT – Center for Community Transformation
CDA – Cooperative Development Authority
CGAP – Consultative Group to Assist the Poor
CIDA – Canadian International Development Agency
CISP – Cooperative Insurance System of the Philippines
CLIMBS- Coop Life Insurance and Mutual Benefit Services
EVAT – Extended Value Added Tax
FICCO – First Integrated community Cooperative
GSIS - Government Service Insurance System
GTZ – Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
HMI – Health microinsurance
IAIS - International Association of Insurance Supervisors
IC - Insurance Commission
ILO – International Labour Organization
IFC – International Finance Corporation
GSIS – Government Social Security System
KASAPI - Kilusang Sigurado at Abot-Kaya sa PhilHealth Insurance
MBA- mutual benefit association
MI - microinsurance
MIAPh – Microinsurance Agency Philippines
NAPC – National Anti-Poverty Commission
NEDA – National Economic Development Authority
NGO – Non-government organization
RIMANSI – Risk Management Solutions, Inc.
PAGASA - Philippines Atmospheric, Geophysical & Astronomical Services Administration
SEC – Securities and Exchange Commission
SSS – Social Security System
VAT – Value Added Tax

1. Summary

History

Development experts across the world agree that microinsurance is a powerful tool for poverty reduction by enabling poor households to pool their risks and thereby prevent them from falling deeper into the poverty trap due to unforeseeable shocks and life-cycle events. Today, microinsurance promotion is an integral part of most financial systems development programmes and social security systems including health.

A number of local initiatives in the Philippines, some of them supported by donors, are a promising start for tapping deeper into the market-led provision of broad-based and sustainable microinsurance development. Given this, the Philippine Government approached the German side asking to support microinsurance development in its jurisdiction. The GTZ, with its long-standing experience in financial systems market development, conducted a microinsurance pre-appraisal mission in March 2007 which was based on an initiative of the Private Sector Programme¹ to support market-based safety nets. The mission team consulted the most relevant microinsurance stakeholders and developed a preliminary project outline, which found the approval of the authorities both at the Philippine (NEDA) and German (BMZ) side. A number of issues were identified however, which justified a more thorough assessment and the need to carry out a full-fledged project appraisal mission.

The appraisal mission, carried out from 21 November to 5 December 2007, started with a commissioning of RIMANSI (see below) to conduct a Microinsurance (MI) Supply and Policy Environment Survey. As well, the mission team conducted a series of meetings in Manila, the Visayas and northern Mindanao and presented its findings, conclusions, and project proposal in a stakeholders' workshop on December 5. This report is the main output of the appraisal mission.

General overview

The Philippines is an archipelago consisting of 7,107 islands covering nearly 300,000 square kilometers is home to almost 90 million people. It is a very young population with a median age of just 22.7 years. Although the population growth rate has slowed down recently, it is still quite high at near 1.8 percent per annum. ²

Less severely affected by the Asian financial crisis of 1998 than most of its neighbors, the country experienced only moderate GDP growth 1999 to 2001 which then accelerated to an average of 5 percent between 2002 and 2006 reflecting the continued resilience of the service sector, improved exports, and due to growth in agricultural output.³ In spite of persistent political instability, in 2007 the country experienced its highest growth rate in years at 7.3 percent, driven mostly by domestic consumption. This growth, however, has not translated into a significant reduction in poverty rates

¹ Small and Medium Enterprises Support Programme

² CIA factbook at www.cia.gov/library/publications/the-world-factbook/print/rp.html

³ The following overview of the Philippine economy was taken directly from the CIA online fact-book:

which remain a widespread problem affecting almost 24 million people (as of 2003) and representing 30 per cent of the population. Poverty rates are highly variable and highest in ARMM, Bicol, CARAGA, Mindoro, western Mindanao, and Palawan. To compound the problem, the country has one of the highest levels of income inequality in Asia with the poorest 20 percent accounting for only 5 percent of total income or consumption.

Most of the country's poor are also vulnerable and exposed to numerous risks such as volcanoes, earthquakes, typhoons, and floods caused in part by deforestation and global warming. In addition, rapid depletion of natural resources and destruction of habitat for fish pose a threat to the countries' food supply.

Demand for insurance services

The demand for financial services of the poor and near-poor households is substantial and described by Asian Development Bank (ADB) as covering "a wide range of products and services [...and] demand for microinsurance products and services is significant [... As well,] the demand for financial literacy services among low-income households is also vast". Yet, access to financial services for the poor is very limited and often costly.⁴

The scope of the mission was limited to studying just one dimension of financial services for the poor - microinsurance.

Overview of insurance industry

In its entirety, insurance in the Philippines can be grouped into several distinct components or sectors. The private commercial component is made up of life and non-life insurance, pre-need, and prepaid managed health care. The public sector is comprised of Social Security System (SSS), Government Service Insurance System (GSIS), and Philippine Health Insurance Corporation (PhilHealth). Finally there is a significant informal insurance sector ⁵ which is integrated into the operations of many NGOs, rural banks, and cooperatives. These schemes typically offer some form of life insurance but sometimes also extend to other product lines such as health insurance.

Life and non-life insurance is regulated and supervised by the Insurance Commission (IC), an agency under Department of Finance. It permits three kinds of direct commercial insurers- life, non-life, and composite (reinsurance companies are also permitted). In 2006 the IC ordered all life and non-life companies to increase their minimum paid-up capital from Php 50 million (US\$ 1.18 million) to Php 75 million (US\$ 1.76 million) by end of 2006, and to further build it up to Php 250 million (US\$ 5.88 million) by 2011. Shortly thereafter, new memorandum circulars were issued which dealt with the adoption of a risk-based capital framework, creating some confusion in the industry with respect to the actual capital requirements. Co-operative insurers are a special kind of insurer registered with Co-

⁴ Fernando, Nina A, Asian Development Bank, 2007: Low Income Households' Access to Financial Services

⁵ In this document, informal insurance refers to any self-insured fund that is not registered with the Insurance Commission.

operative Development Authority (CDA) but still regulated and supervised by the Insurance Commission.

Mutual Benefit Associations (MBAs) are also permitted and may provide life, health, and savings insurance products to their members but are prohibited from transacting business with non-members. Instead of paid-up capital, MBAs are required to put up a guarantee fund of at least 25 percent of the paid-up capital requirement for commercial insurers. There are 18 of these MBAs operating. Recently, a special kind of microinsurance MBA (MI-MBA) appeared in the Philippines which can provide microinsurance products with an initial guarantee fund of just Php 5 million (US\$117,647)- there are now several of these operating as well.

The pre-need industry was launched in 1967 and is under the Securities and Exchange Commission (SEC). It defines pre-need plans as contracts that provide payment of future monetary consideration at the time of actual need with or without interest or insurance coverage. These include life, pension, education, internment and other plans which it may from time to time approve.⁶ There are roughly 4 million Filipinos covered with approximately Php 66 billion (US\$ 1.55 billion) held in reserves. There is no data available to indicate how many of these policyholders are among the poor. The industry has experienced recent problems as some companies experienced financial difficulties, brought on in part by mismanagement and weak oversight of SEC. There have been several attempts in the past to transfer oversight responsibilities to the IC.

The prepaid managed healthcare industry is composed of approximately 25 Health Maintenance Organizations (HMOs). An HMO in summary is “a health care organization that acts as both insurer and provider of comprehensive but specified medical services”.⁷ They offer plans through which members of the HMO may avail of a defined package of services with no out-of-pocket cost since these services have been prepaid.⁸ Roughly 3 million Filipinos are covered, and most of these belong to the formal employed sector. HMOs are registered with SEC and licensed to operate by Department of Health (DOH); this license is largely cursory since DOH does not have the capacity to regulate health insurance. As with pre-need, there have been several efforts to transfer oversight of this sector / industry to the IC.

In summary, insurance penetration in the Philippines was slightly more than 1 percent from 2001-2005 and compares poorly with Thailand, India, and Malaysia, but is slightly better than Vietnam, Indonesia, and Pakistan. Industry analysts describe it as fragmented, fraught with corruption and excessive taxation, and weak in terms of capital, reserves, and professional expertise. The regulatory environment is generally weak, and growth of the industry has not kept pace with economic growth.

Microinsurance providers and services

⁶ www.preneedplans.org a website of Philippine Federation of Pre-need Companies, Inc.

⁷ Definition used in www.iconsdata.org/models.htm

⁸ 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

Some commercial insurers have been pursuing the poor or near-poor market for some time and some have set up partnerships with MFIs. There are also signs that this market is getting more competitive as more providers enter. For the most part, commercial insurers limit their offerings to credit life, term life, and limited health insurance covering inpatient expenses or daily hospital income but only if hospitalization is due to an accident. Pre-need pension and education plans are sold on an individual basis to the poor, but due to weak oversight by SEC and a lack of consumer education, policyholders are exploited in a number of ways.

With the recent advent of favorable IC regulations, several MI-MBAs have sprung up and already cover approximately 800,000 families. This sector is growing rapidly; the largest of these is CARD-MBA which operates nationwide and covers almost 500,000 families. MI-MBAs are sponsored by MFIs whose clientele become the MBA members. To date, most MI-MBAs provide mostly life products with some very limited pension and health insurance.

Public providers SSS, GSIS, and PhilHealth mostly cater to the formal employed sector. One program that specifically targets the poor is the Kilusang Sigurado at Abot-Kaya sa PhilHealth Insurance (KASAPI)⁹ program, which “aims to help a range of organizations like MFIs and cooperatives to provide social health insurance to their members through an affordable group payment scheme under the National Health Insurance Program (NHIP).”¹⁰ This program has been beset by a range of implementation problems, and in spite of the enormous potential, to date just a few thousand families are enrolled.

To fill the gap left by commercial and public providers, informal insurance programs have mushroomed and provide a wide array of microinsurance services. For the most part, products are mimicked from the commercial market and then customized to the true needs of clients / members. One noteworthy success is the comprehensive health insurance program of Cebu CFI Community Cooperative which has operated for ten years, covers approximately 28,000 satisfied members on a compulsory basis, and has accumulated a surplus of Php 72 million (US\$ 1.7 million).

Others actors in microinsurance

Microinsurance Agency Philippines (MIAPh) operates as a national licensed microinsurance agent. Currently, MIAPh provides life products sourced from Coco Life to five MFI members of the APPEND network and as of October 2007 it had covered 635,000 borrowers and their families through 120 MFI partner branches in 38 provinces. It also provides value-added administration services such as data encoding, training, and claims processing. Aside from the current life and credit life product offerings there are plans to develop health and crop insurance. For this MIAPh requires funding and technical assistance.

⁹ This draws from Gilberto Llanto, “Protecting the Vulnerable through Social Health Insurance: PhilHealth’s KASAPI as a Strategy,” PIDS Policy Notes, December 2007

¹⁰ KASAPI Guidebook, 2004, page 7.

RIMANSI Organization of Asia and Pacific, Inc is a not-for-profit non-stock NGO established in early 2005 by several leading MFIs in Philippines. Its mission is to be “a resource center that develops and offers risk management solutions to member-owned microinsurers, especially mutual benefit associations, strengthening their capacity in providing risk protection services to the poor on a sustainable basis”¹¹. There are currently 11 MI-MBAs operating under the RIMANSI umbrella in Philippines. These cover close 700,000 families.

The current package of technical services consists of business development support that leads to the registration and licensing of a MI-MBA. Specific services under this package are contracted between RIMANSI and a client institution and include: pre-feasibility and needs assessment, market research, business planning, product design, actuarial projections, operations training, implementation support, registration and licensing, and ongoing mentoring of management.

The Philippine Health Insurance Corporation (PhilHealth), already mentioned above, is the government agency tasked with implementing a National Health Insurance Program. It is under the Department of Health for policy coordination and administrative supervision. The PhilHealth has developed insurance programs for the informal sector under its Individually Paying Program, e.g., KASAPI program, and also for indigents under its Sponsored or Indigent Program.

In the Philippines, the Department of Finance is the ministry in charge of the financial sector. It is responsible for coordinating efforts related to fiscal, financial and credit policies, debt management, treasury operations, development financing and insurance. The coordinating unit in the Department is the NCC, a standing inter-agency body chaired by the Secretary of Finance with representatives from each of the key agencies (such as Bangko Sentral, Land Bank, Development Bank of the Philippines) that are responsible for implementing financial and credit policy and the private sector/ stakeholder groups for the poor. The NCC has recently taken charge of coordinating with the Insurance Commission on the development of regulations that are conducive to the growth of microinsurance. To realize the goal of microinsurance development, the National Credit Council (NCC) under the Department of Finance is working with the Insurance Commission in developing an enabling regulatory and supervisory framework for the microinsurance sector.

Proposed project concept

Based on the findings, the suggested priority areas for the proposed project include the following:

- a) Build the capacity of the MI-MBAs for self-regulation - The IC has responded well to creating a conducive and enabling environment for microinsurance by lowering the barriers to setting up MI-MBAs. In doing so, it is now challenged by resource limitations to adequately supervise a proliferation of MI-MBAs. The IC has proposed that the MI-MBAs create a self-regulating organization (SRO) in a manner similar to the microfinance industry. This SRO would need capacity to conduct annual audits, measure performance, diagnose performance issues, and

¹¹ From www.rimansi.com

so on. It is expected that the SRO would work closely and build on the existing efforts of RIMANSI, who is already developing some of these capacities.

- b) Build the capacity of the Insurance Commission in MI regulation and supervision - With the introduction of a circular directing MBAs to adopt as risk-based capital (RBC) framework, there is now confusion with regards to the capital requirements of MI-MBAs since an earlier circular had clearly spelled out the Guarantee Fund levels. It is not entirely clear to the current IC team how these two directives are to be reconciled. As well, the new RBC circular still needs some refinement and lacks implementation guidelines. Towards this end, the IC has requested assistance to develop implementing guidelines of RBC for MI-MBAs. Once this is completed, both the IC and SRO will require capacity to monitor MI-MBAs to ensure that guarantee fund levels and capital requirements are being met.
- c) Effective financial consumer literacy work - One of the key findings of the Mission Team was that awareness and financial literacy levels are still regarded by suppliers and distributors as one of the principal determinants of microinsurance uptake in the country. Awareness levels, however, appear to be increasing, but much more needs to be understood and done. Insurance penetration levels remain low for groups with voluntary participation. In groups where participation is compulsory, coverage is often inadequate due to unwillingness to pay. Although willingness to pay is a function of disposable income, it is also determined by buyer's attitude which in turn is affected by such factors as culture and past experiences.

The project should support NCC and IC in developing a multi-stakeholder initiative in financial literacy which would include other actors at the policy level. This could include a series of dialogues and workshops with policymakers, donors, and private stakeholders on efficient strategies to develop financial literacy effectively.

Secondly, the project should develop a comprehensive handbook on strategies for promoting microinsurance awareness and financial literacy. The guide should be based on a thorough review of the current industry stakeholder initiatives, on the results of existing studies, campaigns, and on the results of an extensive field study. The aim of the handbook would be to assist microinsurers in developing effective marketing materials and messages for promoting their services.

- d) Development of effective microinsurance products, especially health microinsurance - Management of PhilHealth KASAPI program has recognized that a uniform product and standardized implementation approach has not worked well in pursuing the objectives of penetrating the informal sector through organized groups such as MFIs. Although there are now initiatives to customize the product and relax implementation conditions, it is not likely that these measures will be sufficient to satisfy all groups and lead to the desired outcomes of the program.

The project should initially pursue two pilot health insurance projects (to be replicated later) - one of these will be developed in partnership with an MFI -

MBA and a second with an MFI-insurer combination. Both pilots will aim to address the main obstacles that hinder the KASAPI program

In meetings with the various stakeholders during the mission, there was much discussion about the need to develop new products such as health, crop, non-life to cover productive assets, and so on. The project should aim to develop at least two new products aside from the health pilots, and it should be done jointly with MIAPh and / or RIMANSI. As well, the MI-MBAs have expressed an urgent need to develop catastrophe reinsurance.

Table 1: Summary of project components

Components	Sub-components	Main activities	Partners
1. Enabling environment	1.1 - MBA self-regulation	Capacitate Self-regulatory Organization (SRO) and RIMANSI to conduct supervisory functions of MI-MBAs. Develop prudential indicators and benchmarks to measure performance.	IC, SRO, RIMANSI Indirect partners: MI-MBAs, NCC
	1.2 Risk-Based Capital (RBC) implementation for MI-MBAs	Capacitate IC, SRO, and RIMANSI to implement RBC- this will be integrated with self-regulation.	
	1.3 Financial literacy policy development	Develop a multi-stakeholder initiative in financial literacy which will include other actors at the policy level. This could include dialogue and workshops with policymakers and donors on efficient strategies to develop financial literacy effectively.	
2. Market-based MI innovations	2.1 Health microinsurance innovations	Develop two pilot health microinsurance programs which will be integrated with PhilHealth-one using a P-A approach and a second in partnership with an MI-MBA. In the latter stages of the project, when the models have been fine-tuned, replicate to other microinsurers.	PhilHealth, RIMANSI, MIAPh, insurer such as CLIMBS, MI-MBA such as RBT-MBA, MFIs/coop, service providers. Indirect partners: NCC
	2.2 Financial literacy strategy development for microinsurers	1) Field study to determine the main aversions towards insurance services at client level. 2) Determine a set of interventions which are expected to be most effective based on evidence of Philippine or other countries (e.g. South Africa) 3) Financial literacy hand-book for microinsurers	IC, NCC, RIMANSI, MIAPh, research consulting firm, participating microinsurers
	2.3 Research and new product development	Develop and test new products, based on feedback from the MI market.	MIAPh, RIMANSI, microinsurers. Indirect partners: NCC

Inputs from German Government are the contract value of 3 million Euros for the first phase of 3 years as agreed in the Government-to-government negotiations of June 2007. After the initial phase of 3 years a re-assessment should take place, allowing closer consideration not only of the pilot phase experiences but also the overall project set-up and interfaces with ongoing programs. These programs serve as anchors for subsequent activities geared towards sustainability and replication of the 1st phase.

Inputs from the partner side are not quantified yet, however, partners will be expected to invest considerable inputs in financial and human resources (staff time and funding of activities) which are expected to amount to a multiple of German funds. The political will of the principal partner is the decisive criteria for selection

and this should be verified again before submitting a proposal to BMZ. Concrete contributions in staff, kind, cash or other expertise will be defined in detail in the Implementation Agreement.

2. Project Proposal, Terms of Reference, and Procedure

2.1 History of the project proposal

The GTZ has long-standing experience in market development in the Philippines. It also has ample experience in Financial Systems Development both in the Philippines and in other countries, including sector-wide and global support to the regulation, supervision and policy issues of microinsurance development via the Consultative Group to Assist the Poor (CGAP) Working Group on Microinsurance and the International Association of Insurance Supervisors (IAIS). At the same time, it has also a long-standing experience in the health sector in the Philippines which is of relevance, especially as regards the support with the development of an inclusive health insurance scheme, which aims specifically at informal sector workers and indigents.

A number of local initiatives in the Philippines, some of them supported by donors, are a promising start for tapping deeper into the market-led provision of broad-based and sustainable microinsurance. Among those are the regulatory framework, the number of microinsurance mutual benefit associations (MI-MBAs), the KASAPI¹² initiative in terms of health insurance, and the existence of RIMANSI as a service agency for insurance providers and other stakeholders.

Against this background, the Philippine Government has approached the German side asking to support microinsurance development in its jurisdiction. Based on an initiative of the Private Sector Program¹³ to support market-based safety nets, a pre-appraisal mission was conducted in March 2007. The mission team consulted the most relevant stakeholders involved in microinsurance and developed a preliminary project outline. This project proposal was discussed with the possible partners in the Philippines and found their approval. The proposal also found the approval of the authorities both at the Philippine (NEDA)¹⁴ and German (BMZ)¹⁵ side.

During the March mission, a number of issues were identified which require a more thorough assessment of the microinsurance sector including its organizations and clients. To prepare the necessary documentation for BMZ and NEDA, and to ensure a smooth and informed project start, the need was felt to carry out a full-fledged project appraisal mission. The mission was carried out from 21 November to 5 December 2007 in Manila, Visayas, and northern Mindanao (see section 2.3).

2.2 Description of the project to be appraised¹⁶

Development experts across the world agree that microinsurance is a powerful tool for poverty reduction by enabling poor households to pool their risks and thereby

¹² Kilusang Sigurado at Abot-Kaya sa PhilHealth Insurance

¹³ Small and Medium Enterprises Support Program

¹⁴ National Economic and Development Authority

¹⁵ Bundesministerium für Zusammenarbeit und wirtschaftliche Entwicklung/German Federal Ministry of Cooperation and Economic Development

¹⁶ Taken from Wiedmaier-Pfister, M., Llanto, G., Portula, D., Jowett, M., July 2007: GTZ MIP Pre-Appraisal Report

prevent them from falling deeper into the poverty trap due to unforeseeable shocks and life-cycle events. Today, microinsurance promotion is an integral part of programs to strengthen financial systems development, and social security systems including health. Development agencies, professionals and some governments look at microinsurance from these different conceptual viewpoints.

For the purpose of this report, the following definition of microinsurance, which was established recently by the Philippine Insurance Commission (IC) provides an initial reference for our scope of work: ¹⁷

- *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 Php 1,050 (US\$ 24.71) ¹⁸ and the maximum amount of life insurance coverage is not more than Php 175,000 (US\$ 4,118).*

Based on these considerations and definitions we looked at both the social security system in terms of coverage/enrolment of informal economy workers and the stage of microinsurance development in the Philippines in general. In alignment with the definition the CGAP Working Group on Microinsurance uses for microinsurance, we also considered insurance services provided under the social security system of the Philippines, and for which the insured pay a premium, as microinsurance. According to the CGAP definition, and our understanding, subsidy-based or fully government-financed insurance programs are not considered microinsurance.¹⁹

However, since the IC definition is limited to life microinsurance, and to a narrow policy amount, we further broadened our working definition to include other products such as health insurance, prepaid managed health care, pre-need plans such as pension and education plans, etc. insofar as these products are currently being marketed to poor households and/or have the potential to meet the needs of the poor.

2.3 Terms of reference and procedure

The appraisal mission started with a commissioning of RIMANSI to conduct a Microinsurance (MI) Supply and Policy Environment Survey. The initial findings of the survey were presented on November 21st during the mission team briefing. The full report of the survey is in Annex 4.

The mission team is composed of:

- **Mr. John Wipf** – responsible for overall coordination of the content of the mission; consult with RIMANSI for the conduct of microinsurance supply analysis; develop project proposal for presentation at the final stakeholder workshop; and lead in the preparation of the mission report.

¹⁷ 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.

¹⁸ Exchange rate: 1 US\$ ≈ 42.5 PHP as of December 1, 2007

¹⁹ Draft Issues Paper on Microinsurance for Insurance Supervisors, CGAP-WG MI; Subgroup Regulation and Supervision and International Association of Insurance Supervisors (IAIS), May 2007

- **Dr. Gilberto Llanto** – responsible for the assessment of the policy including regulatory environment, research issues, and input on PhilHealth-KASAPI program.
- **Mr. Dante Portula** – responsible for integration with GTZ; coordination with other donors; and overall coordination with RIMANSI.
- **Ms. Martina Wiedmaier-Pfister** – as back-stopper; responsible for inputs in the preparation of mission; revision of appraisal report and recommendations for project proposal; revision of mission report; and writing of BMZ offer.

The Team conducted a series of meetings in Manila, the Visayas and Mindanao from 21 November until 5 December 2007. Annex 1 is a list of Persons/Institutions met.

The team presented and validated its findings, conclusion and project proposal in a stakeholders' workshop on December 5. Annex 2 is the team's presentation and Annex 3 is the documentation of highlights of the workshop.

Box 2.3a – Guide Questions for the Mission Team

- (1) Should the project really work on all the levels of the financial system?
- (2) Which other sectors or systems (social security, agriculture, health) should be involved?
- (3) Who will be the official and the project partners (at all three levels) for implementation? Criteria for selection?
- (4) What should be the major intervention areas of the project (e.g. retail service provision, of risk carriers, delivery channels, and in addition to this, research, capacity building, transparency, financial literacy)?
- (5) In which way can/should health microinsurance be promoted by the project?
- (6) What kind of personnel is required to implement the project? Both at project team and partners side.
- (7) Which are the major risks for implementation at the various levels of the financial system or related to other factors (political, technical, target-group)? Situations that may affect the successful implementation of the project. Which are adequate risk mitigation strategies?
- (8) Is there a co-funding possibility with other donors/development agencies? Which other donors are engaged in MI support? ADB, CIDA and CCA?
- (9) What has to be done to make a PPP work and which could be its strategic approach (products, region, private partner)?
- (10) Which impact can be expected from the project? At which level (see Kurzstellungnahme 6.1)?
- (11) Which impact can be expected in terms of the conflict resolution potential of microinsurance and what has to be done to make this approach unfold?
- (12) Can certain standards (bench-marks) and international best-practice be developed (model character of project)? In which way (e.g. linkages with social security system, health innovations)?
- (13) How can the future project best react on the challenges of microinsurance in the Philippines such as (give prioritization and propose activities and partners):
 - a) High demand for insurance in Philippines among disadvantaged groups.
 - b) Reform agenda (policy, regulatory, supervision)
 - c) New providers / intermediaries face steep learning curve
 - d) Sustainability of existing and new microinsurance providers
 - e) New products need to be developed (e.g. health, crop, pre-need)
 - f) Awareness creation, customer education, with respect to insurance
 - g) Improve existing, and develop new distribution mechanisms
 - h) Develop financial infrastructure (capacity building, reinsurance, networks, etc.)
 - i) Improve transparency and research (public goods)
 - j) International networking to learn / share good practices

Source: Terms of Reference, Microinsurance Innovation Project (MIP)- Appraisal Mission and BMZ Offer

3. Situation Analysis

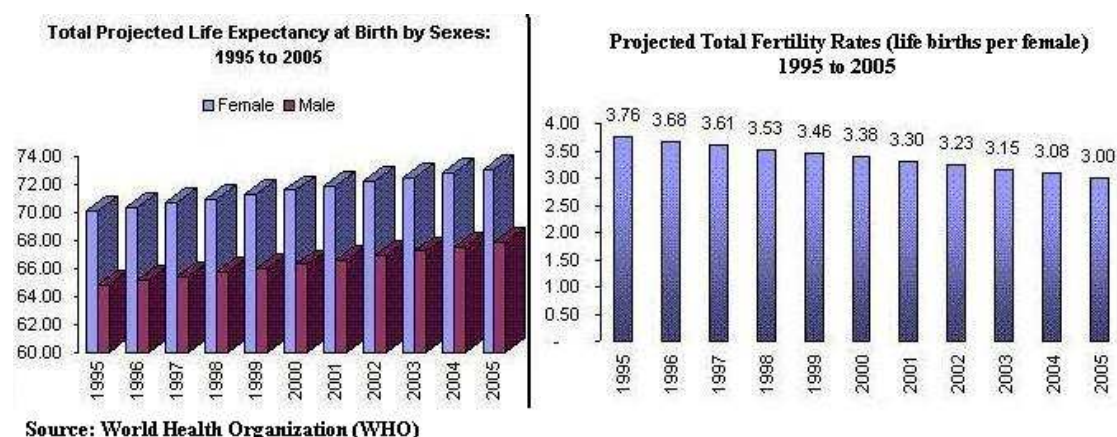
3.1 General overview of Philippines

Geography and people

The Philippines is a Southeast Asian archipelago consisting of 7,107 islands and covering a land area of approximately 300,000 square kilometers (298,170 to be exact). The country is largely mountainous with narrow to extensive coastal lowlands. Only 19 percent of the total land is arable. With an estimated population of around 90 million, the average population density is 300 persons per square kilometer, higher than most of its neighbors. It is a very young population with a median age of just 22.7 years. Although the population growth rate has slowed down recently, it is still quite high at near 1.8 percent per annum, in part driven by an increasing life expectancy but being slowed down by a dropping fertility rate and negative net immigration rate.

Table 3.1a: Key population indicators²⁰

Indicator	Recent estimated value
Land Area	298,170 square km
Population (July 2007 est)	91,077,287 persons
Population density	Approx 300 persons per sq km
Urban %	63 %
Age structure (2007 est.)	0 - 14 years: 34.5% (male 16,043,257/female 15,415,334) 15 - 64 years: 61.3% (male 27,849,584/female 28,008,293) 65 years and over: 4.1% (male 1,631,866/female 2,128,953) Median age: 22.7 years
Population growth rate	Overall population growth rate: 1.764% Birth rate: 24.48 births per 1000 Death rate: 5.35 deaths per 1000 Net immigration: -1.48 per 1000
Life expectancy	Total population: 70.51 years Male: 67.61 years Female: 73.55 years (2007 est.)
Fertility rate	3.05 children born/woman (2007 est.)



²⁰ CIA factbook at www.cia.gov/library/publications/the-world-factbook/print/rp.html

Socio-economic overview

The Philippines was less severely affected by the Asian financial crisis of 1998 than most of its neighbors, aided in part by its high level of annual remittances from overseas workers, less severe run-up in asset prices, and more moderate debt prior to the crisis. From a 0.6 percent decline in 1998, GDP expanded by 2.4 percent in 1999, and 4.4 percent in 2000, but slowed to 3.2 percent in 2001 in the context of a global economic slowdown, an export slump, and political and security concerns. Average GDP growth increased to 5 percent between 2002 and 2006 reflecting the continued resilience of the service sector, improved exports, and due to growth in agricultural output.²¹ In spite of persistent political instability, in 2007 the country experienced its highest growth rate in years at 7.3 percent, driven mostly by domestic consumption.

Nonetheless, a higher, sustained growth path will be needed to make appreciable progress in the alleviation of poverty given the Philippines' high annual population growth rate and unequal distribution of income.²² The Philippines also faces higher oil prices, and in spite of global interest rate cuts designed to boost economic growth, the country faces higher long term interest rates on its dollar borrowings in order to attract investors expected to become more risk averse to emerging economies in the context of reduced economic growth around the world. Consumer price inflation index, which is heavily weighted by food items, is expected remain relatively low due to recent good harvests and a strong peso, but is expected to increase slightly from 2.7 percent in 2007 to 3.4 percent in 2008.²³

Fiscal constraints limit Manila's ability to finance infrastructure and social spending. The Philippines' consistently large budget deficit has produced a high debt level, and this situation has forced Manila to spend a large portion of the national government budget on debt service. Large unprofitable public enterprises, especially in the energy sector, contribute to the government's debt because of slow progress on privatization. On the other hand, the government's successful disposition of some public sector assets in the last two years has helped raise much needed revenues. These sources are not, however, the recurrent revenue streams that tax revenues are, and the government has to continue efforts to improve tax collection.

Credit rating agencies expressed concern in the past about the Philippines' ability to service the debt, though central bank reserves appear adequate and large remittance inflows are stable. The implementation of the Expanded Value Added Tax (EVAT) in November 2005 boosted confidence in the government's fiscal capacity, and this, together with the sustained remittance of overseas workers' earnings helped to strengthen the peso, making it East Asia's best performing currency in 2005-07.

²¹ The following overview of the Philippine economy was taken directly from the CIA online fact-book:

²² Ibid

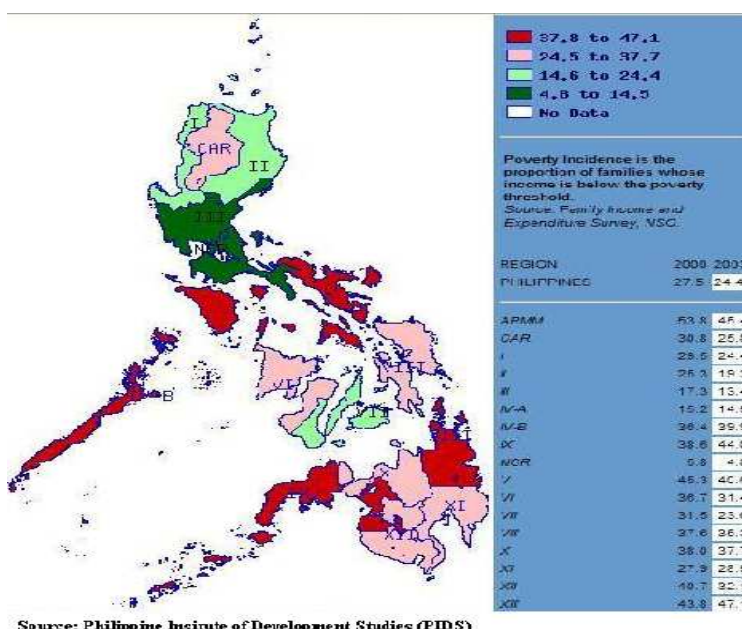
²³ Economic Intelligence Unit, November 2007

Table 3.1b: Key economic indicators²⁴

Indicator	Recent estimated value
Gross Domestic Product (GDP) (2007 est.)	Php 1,364 billion (US\$ 32.1 billion)
GDP composition by sector (2006 est.)	agriculture: 14.1% industry: 31.6% services: 54.2%
Real GDP growth	7.3 %
Labor force (2006 est.)	35.79 million
Labor force by occupation (2004 est.)	agriculture: 36% industry: 15% services: 49%
Average unemployment rate	7.9 %
Literacy rate (age 15 and up can read and write)	93 %
Inflation rate	6.2% (2006), 2.7% (2007)
Php / US\$ Exch. rate (est. avg. 2007)	46.63

Although the country is rich in biodiversity²⁵ and natural resources it faces some severe challenges as these are depleted at unsustainable rates. For example, in spite of numerous logging bans, illegal logging is still rampant as watershed areas are denuded by both slash-and-burn farmers and loggers financed by powerful business in cahoots with corrupt government officials and the military. As a result, forest cover has shrunk from over 60 percent in 1990 to a mere 24 percent and continues to shrink at a rate of 2% a year²⁶. In many areas of the country people have been affected by natural disasters caused by deforestation such as landslides, droughts, and severe floods. As well, there has likely been an irreversible loss of endemic species and freshwater resources that depended on these forests.

In other areas of the country, extensive mining of minerals such as gold, nickel, and copper has resulted in loss of arable land and has polluted freshwater resources. Illegal fishing practices and global warming have created havoc on coral reefs, and this as well as the destruction of mangroves has put tremendous strain on fish and other marine resources.



The country faces other perils- the northern portion is situated in a typhoon belt and hence it is affected by as many as 25 typhoons annually which destroy lives,

²⁴ Sources: CIA online factbook and NEDA

²⁵ Philippines was ranked as the fifth most bio-diverse country in 1998.

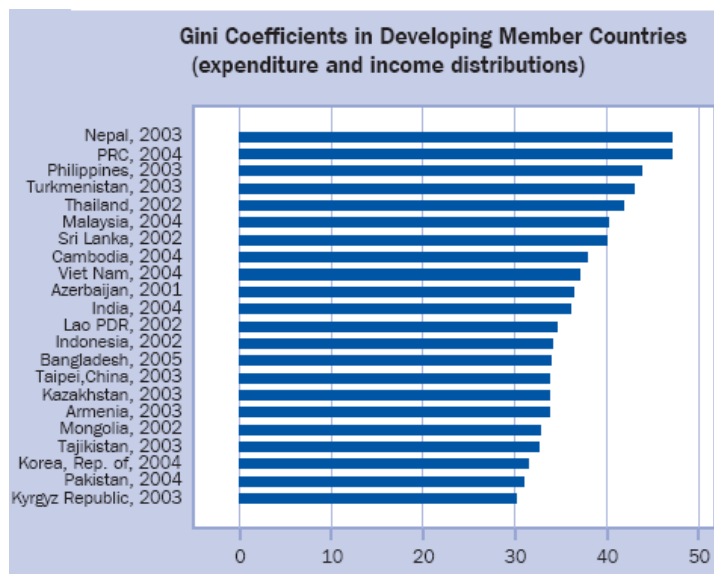
²⁶ According to www.rainforests.mongabay.com/20philippines.htm

property, infrastructure and crops. Situated in the Pacific Ring of Fire, the country is especially susceptible to earthquakes, volcanoes, and tsunamis.

Poverty is a very significant and widespread problem with almost 24 million people living below the Philippines poverty threshold in 2003, representing 24 per cent of Philippine families and 30 per cent of the population. Infant mortality rate still persists at 25 per 1000 births, while child malnutrition is 28 percent. According to AusAid and ADB, 14 percent of the population lived on US\$ 1 per day in 2003 while 44 percent survived on just US\$ 2 per day.^{27,28}

Poverty is mainly rural and quite variable throughout the country. South and central areas have the highest poverty incidence and are highest in ARMM, Bicol, CARAGA, Mindoro, western Mindanao, and Palawan. Low agriculture productivity, inadequate rural infrastructure, unequal distribution of land and income, rapid population growth rates and lack of quality social services are the main roots of rural poverty. Furthermore, armed conflict, vulnerability to natural disasters and other risks continue to deepen existing disparities and poverty incidences.²⁹

In addition, the Philippines has one of the highest levels of income inequality in Asia with the poorest 20 percent accounting for only 5 percent of total income or consumption. In fact, it has one of the highest Gini coefficients in Asia, which is a common measure used to quantify relative inequality in terms of income and expenditure (0 means no inequality, 100 is complete inequality). This coefficient does not reflect the additional disparities in terms of access to health services, education, and economic assets.



Source: Asian Development Bank

In general, this high income inequality is a serious problem since it dampens the poverty reducing impact of a given amount of economic growth. Moreover, there are reasons to believe that high levels of inequality may adversely impact future growth and development prospects.³⁰

Armed conflict

The Philippines, like many of the third world countries in Southeast Asia, is burdened with problems related to ethnic and religious minority populations. As a

²⁷ www.adb.org/Statistics/pdf/Basic-Statistics-2007.pdf

²⁸ www.ausaid.gov.au/country/country.cfm?CountryID=31

²⁹ Ibid

³⁰ Asian Development Bank, 2007: Inequality in Asia, Key Indicators 2007 Special Chapter

multi-cultural state, one of the major challenges is forging unity and cooperation among the various ethnic groups in the country.³¹ There is a long history of armed conflict, with rebels and insurgent groups constantly pressuring the government, thus creating an atmosphere of violence and fear.³²

One of the minority groups are the Bangsamoro people, the Muslim Filipinos composed of 13 indigenous groups, who have been struggling for their right to self-determination for decades. Although they had expressed resentment over the loss of their political sovereignty to colonization and migration of Christian settlers as early as 1912, not until 1968 was an independence movement formally launched. It called for the outright secession of Mindanao, Sulu and Palawan regions from Philippine control. It also called for a jihad (holy war) to defend the Bangsamoro homeland. Wars between the Moro National Liberation Front (MNLF) and the Moro Islamic Liberation Front (MILF) against the Armed Forces of the Philippines (AFP) have raged on numerous occasions since then.³³

In general, aside from the historical reasons, the conflict with Bangsamoro people ignited as a result of underdevelopment in their areas, an unequal distribution of wealth, and the lack of sufficient effort by the government to integrate minority them into the political and institutional fabric of the overwhelmingly Roman Catholic country”.³⁴

Another major insurgent group is the New People’s Army (NPA), a communist group embracing a Maoist ideology. They have been at war with the Philippine government since 1969, growing to be one of the most powerful communist insurgencies in the world. The NPA has attracted a large following – the majority of whom have turned to NPA due to extreme poverty and a distrust of the Philippine government. As of June 2006, the NPA claimed to be established in 70 of the 79 provinces of the Philippines. By serving as the *de facto* government for these communities (which are often isolated from the actual government) the NPA is easily able to increase their numbers.³⁵

Armed conflict has a devastating effect on people living in affected areas. Aside from destruction of property, human rights abuses, and loss of innocent lives, the economic activities and usual livelihoods are disrupted which directly contributes to increased poverty. Furthermore, organizations providing services to the poor do not readily operate in crisis afflicted areas. This includes MFIs who claim that armed conflict disrupts the businesses of their clients, hence severely affecting their ability to repay microfinance loans. Without microfinance, there is no financial support and enabling environment for micro-insurance.³⁶

³¹ Kamlian, Jamail A., November 2003: Ethnic and Religious Conflict in Southern Philippines: A Discourse on Self-Determination, Political Autonomy and Conflict Resolution

³² UNFPA Philippine Factsheet October 2007

³³ Kamlian, Jamail A., November 2003: Ethnic and Religious Conflict in Southern Philippines: A Discourse on Self-Determination, Political Autonomy and Conflict Resolution

³⁴ IDMC - *Philippines: More attention needed on protection of IDPs*. Geneva, Switzerland: Internal Displacement Monitoring Centre, March 14, 2007. www.internal-displacement.org

³⁵ UNFPA Philippine Factsheet October 2007

³⁶ RIMANSI December 2007: GTZ Microinsurance Innovations Project, Supply and Policy Environment Survey

Financial services for poor households

The demand for financial services of the poor and near-poor households is substantial throughout Asia and Philippines. A recent publication by the Asian Development Bank (ADB) describes this demand as covering “a wide range of products and services. First, [...] households demand access to safe, convenient, and appropriate deposit facilities. Second, they demand access to credit at minimum transaction costs and at reasonable prices for a wide range of purposes. Third, they demand access to payment and money transfer services. In many countries, rural-to-urban migration has resulted in significant remittance flows from urban-to-rural areas [...] Fourth, emerging evidence suggests that demand for microinsurance products and services is significant [...] Fifth, the demand for financial literacy services among low-income households is also vast”.³⁷

Access to financial services in general is very limited and often costly. “For insurance [the poor] rely on informal arrangements which rest on reciprocity in many cases. For money transfers also, they use informal mechanisms. In general, the effective prices that the poor and low income households pay in informal markets for these services tend to be high. Many people who save cash in informal markets suffer significant losses. Those who borrow from informal commercial credit markets often have to pay very high interest rates and are unable to get medium- to long-term loans. In addition, informal markets are inefficient in financial intermediation. While many admit the drawbacks of informal sources of financial services, their extensive nature and persistent role in meeting the demand for financial services among low-income households confirm beyond any doubt the importance of financial services in the lives of these households. Also, the widespread existence of informal markets confirms the fact that there are important supply-side constraints in the formal financial system on the access to financial services for those at the low end of the market”.³⁸

The scope of the mission was limited to studying just one dimension of financial services for the poor- microinsurance. The rest of section 3 describes and analyses the situation of the insurance industry (or industries, depending on how it is viewed), the policy and regulatory environment, the various products and actors, accessibility of microinsurance services, and so on.

3.2 Insurance in the Philippines

Insurance as a business activity in the Philippines is often described as one industry with several sectors, but it is also referred to by many as being composed of several separate industries. In this report we use both descriptions, whichever happens to be more convenient for the context of a particular discussion.

In its entirety, insurance can be grouped into several distinct components or sectors. The private commercial component is described in sections 3.2.1 to 3.2.3 and is made up of life and non-life insurance, pre-need, and prepaid managed health care. The

³⁷ Fernando, Nina A, Asian Development Bank, 2007: Low Income Households’ Access to Financial Services

³⁸ Ibid

public sector is comprised of Social Security System (SSS), Government Service Insurance System (GSIS), and Philippine Health Insurance Corporation (PhilHealth). Finally there is a significant informal insurance sector which is integrated into the operations of many NGOs, rural banks, and cooperatives.

3.2.1 Life and non-life insurance ³⁹

In the Philippines, life and non-life insurance companies are regulated and supervised by the Insurance Commission, an agency under Department of Finance. The Commission is tasked with implementing Presidential Decree No. 612 dated December 18, 1974, the Insurance Code of the Philippines. Under Section 414 of this code the Commissioner is authorized to issue rulings, implementation instructions, department orders, circulars, and any decisions pertinent to enforce the code; for all of these the Commissioner must get approval from the Secretary of Finance.

The code permits licensing of three kinds of direct commercial insurers- life, non-life, and composite (reinsurance companies are also permitted). In 2006 the IC Commissioner issued Department of Finance Order 27-06 requiring all life and non-life companies to increase their minimum paid-up capital from Php 50 million (US\$ 1.18 million) to Php 75 million (US\$ 1.76 million) by end of 2006, and to further build it up to Php 250 million (US\$ 5.88 million) by 2011. All companies would also have to meet a minimum statutory net worth of Php 100 million (US\$ 2.35 million) by 2006 year end with further increases to Php 500 million (US\$ 11.76 million) by 2011. Shortly thereafter, new memorandum circulars were issued which dealt with the adoption of a risk-based capital framework, creating some confusion in the industry with respect to the actual capital requirements.

In whatever manner these new rules will be implemented, there will be a significant increased capitalization requirement which is likely to lead to the IC's desire for further consolidation. As table 3.2.1a shows, mergers, acquisitions, and liquidations have already contributed to a steady overall downward trend in the number of companies in recent years. ^{40, 41}

Table 3.2.1a: Number of Licensed Insurance Companies

Type of Insurer	2000	2001	2002	2003	2004	2005
Life	39	37	33	32	34	33
Non-life	110	107	99	102	97	94
Composite	3	3	4	4	4	3
Professional Reinsurers	4	4	3	3	2	2
TOTAL	156	151	139	141	137	132

Co-operative insurers are a special kind of insurer registered with Co-operative Development Authority (CDA) but still regulated and supervised by the Insurance Commission. The minimum paid-up capital is just 50 percent of that required for other commercial insurers (more details in Section 3.4.2).

³⁹ This section draws from the IC website www.insurance.gov.ph and from the GTZ MIP Pre-Appraisal Mission Report.

⁴⁰ Wiedmaier-Pfister, M., Llanto, G., Portula, D., Jowett, M., July 2007: GTZ MIP Pre-Appraisal Report

⁴¹ Insurance Commission 2005 Annual Report

Mutual Benefit Associations (MBAs) are registered under Chapter VIII Sections 390 – 409 of the Insurance Code and are hence also regulated and supervised by the Insurance Commission. The largest of these include Armed Forces of the Philippines MBA (AFP-MBA) with 200,000 members, PNP-MBA with 120,000 members, and Knights of Columbus with over 50,000 members. MBAs may provide life, health, and savings insurance products to their members but are prohibited from transacting business with non-members. Instead of paid-up capital, MBAs are required to put up a guarantee fund of at least Php 12.5 million (US\$ 294,118, which is 25 percent of the paid-up capital requirement for commercial insurers).

Recently, a special kind of microinsurance MBA (MI-MBA) appeared in the Philippines which is further discussed in section 3.4.1. Aside from these MI-MBAs there are currently eighteen “regular” MBAs (according to a listing on the IC’s website); the majority of these are organized by government employee groups such as teachers, armed forces, and postal workers.

Industry performance⁴²

The combined growth of the life and non-life insurance industries was modest in 2005 (see table 3.2.1b). Aside from the improvements shown in the table, both industries experienced improved operating results- for the life sector this was due to higher investment returns while the non-life sector experienced better underwriting results.

Table 3.2.1b: Industry 2005 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%

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. As table 3.2.1c shows, per capita expenditure on insurance grew by roughly 37 percent from Php 547.9 (US\$ 12.88) in 2001 to Php 750.7 (US\$ 17.66) in 2005. Life insurance comprised almost

⁴² Insurance Commission 2005 Annual Report (latest available)

three-fourths of the total per capita expenditure on insurance, while the remaining one-fourth is taken up by non-life insurance.⁴³

Insurance penetration in the Philippines was slightly more than 1 percent from 2001-2005 while insurance density ranged from US\$ 12 to US\$ 18 in 2001-2005. 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. Hence, one can conclude that there is a significant room for growth of the insurance market in the country.⁴⁴

Table 3.2.1c: 2005 Life and non-life coverage indicators (private companies only)⁴⁵

Indicator	2001	2002	2003	2004	2005
Insurance Density (Per capita expenditure in PhP)	547.9	622.3	676.8	726.2	750.7
Life	385.5	456.6	496.4	533.3	550.8
Non-life	162.4	165.7	180.4	192.6	199.9
Insurance Penetration (Life sum insured as % of GDP)	42.16%	41.94%	47.48%	38.66%	27.43%
Insurance Penetration (Life & Non-life Premium as % of GDP)	1.14%	1.25%	1.25%	0.92%	1.16%
Population (millions)	77.9	79.5	81.0	82.7	85.3
Labor force (average, millions)	33.11	33.93	34.57	35.86	35.13
Estimated Life Insurance coverage (formal)	12.80%	13.65%	18.31%	13.11%	13.01%

In 2006, rating agency Standard & Poor's reported that the Philippine insurance industries were marked by inadequate capitalization, weak reserves, lack of consolidation, insufficient professional expertise, and a weak regulatory environment. As well, the non-life industry was found to be very competitive, and although premium income grew by 8 percent, real premium rates fell sharply due to the soft market and competition.⁴⁶

In 2007, independent forecaster The Business Monitor International expected the Philippines life industry to grow by an average of just 6 percent in peso terms and 11 percent in US\$ terms over five years (2007 - 2011). It categorized the Philippines as a "small to medium-sized national market for life insurance and one where premiums are growing moderately/quickly".⁴⁷

One impediment to industry growth is the high rate of taxation because it drives up the cost of insurance for the consumer. This also creates a disincentive for informal programs to register and hence these are not counted in industry figures. The life and

⁴³ Adapted from Gilberto Llanto, Joselito Almario and Maria Piedad Geron (2007) "Developing Principles for the Regulation of Microinsurance," a report submitted to RIMANSI and IDRC.

⁴⁴ Ibid

⁴⁵ Insurance Commission 2005 Annual Report (latest available at the time of this report)

⁴⁶ www.malayan.com/presidentsreport.html, The Malayan Group of Insurance Companies, Chairman and President's Report.

⁴⁷ www.businessmonitor.com/insurance/philippines.html#L4, website of Business Monitor International

non-life sectors lament that they are among the most heavily taxed in the financial system.⁴⁸ Currently, the various taxes are applied as follows:

Table 3.2.1d: Various taxes of the life and non-life industries

Particulars	Life	Non-life
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 on Premium Collected	0.25%	12.5%
Reinsurance	Exempt	Same

The expected reduction of the corporate income taxes of insurance companies in 2009 will greatly help in reducing premium rates for insurance products. There is also a recent move which is supported by the Department of Finance to reduce the premium tax on life insurance contracts from 5 percent to 2 percent.

3.2.2 Pre-need

The pre-need industry was born in the Philippines when the first memorial plan was launched in 1967. Over the years the industry flourished and soon education, pension, travel, wedding and other products appeared. Today, pension, education, and memorial plans (also known as life, internment, or funeral plans) dominate the industry.

The sector is regulated by Security and Exchange Commission (SEC). There is no special pre-need law; rather it is covered off in The Securities Regulation Code. To set up a pre-need company requires a paid-up capital requirement of Php 100 million (US\$ 2.35 million). According to SEC, of the 92 companies registered in the past 25 years there are only 27 licensed companies operating today- the rest were either liquidated or consolidated within the industry.

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, internment and other plans which the Securities and Exchange Commission may from time to time approve."⁴⁹

In recent years the industry experienced setbacks when two of the more prominent companies, Pacific Plans and College Assurance Plans (CAP), ran into financial difficulties. Some of these problems originated from so-called "traditional plans" which guaranteed to provide tuition benefits and memorial services at whatever cost, at the time of need. The industry did not foresee the liberalization of tuition fees and the inflation of memorial costs and hence their liabilities were much higher than

⁴⁸ Gilberto Llanto, Joselito Almario and Maria Piedad Geron (2007) "Developing Principles for the Regulation of Microinsurance," a report submitted to RIMANSI and IDRC.

⁴⁹ www.preneedplans.org a website of Philippine Federation of Pre-need Companies, Inc.

anticipated- the fact that this could happen reflects a lack of sound actuarial principles and practices in the design of these plans and the weak oversight of the industry.

Today only fixed-value plans are sold for which the benefits are pre-determined when the plan is purchased.⁵⁰

There were other problems as well. For example, in spite of SEC requirements for investment diversification of the Trust Fund (actuarial reserve required for funding benefits when the plan matures or plan-holder surrenders), some companies were overexposed in asset classes such as real estate which resulted in illiquidity and underperformance problems. Second, industry Trust Funds were sometimes underfunded due to unrealistic prospective interest rate assumptions used for calculating reserve levels (i.e. actuarial present value of the company's future liabilities). In the case of CAP, plan-holders accused the firm of breaching their fiduciary obligations by using the funds to bankroll directly and indirectly the operations of affiliate companies owned by some members of the CAP Board⁵¹.

For several years there have been several proposed Bills in both Houses with the aim of transferring oversight responsibility to the Insurance Commission. The latest of these bills was sponsored in 2006 by Senator Angara and in a Senate Press Release he said, "The deregulation of tuition fees in 1992 resulted in the unforeseen tremendous increase in

NUMBER OF PLANS SOLD AND SALES OF PRE-NEED CORPORATIONS
January – July 2006 & January – July 2007

Item	January – July 2007 P/		January – July 2006		Percent Growth/ (Decline) Rate
	Total	Percent to Total	Total	Percent to Total	
Number of Plans Sold	141,800	100.00	129,215	100.00	9.74
Education	15,169	10.70	19,917	15.41	(23.84)
Life	59,127	41.70	42,923	33.22	37.75
Pension	67,504	47.61	66,375	51.37	1.70
Sales (Peso Amount)	11,985,136,680	100.00	11,180,292,168	100.00	7.20
Education	2,198,936,816	18.35	2,458,952,111	21.99	(10.57)
Life	2,278,790,965	19.01	1,547,001,874	13.84	47.30
Pension	7,507,408,900	62.64	7,174,338,182	64.17	4.64
Initial Collection (In pesos)	1,354,584,894	100.00	1,417,806,341	100.00	(4.46)
Education	198,106,321	14.62	234,807,770	16.56	(15.63)
Life	195,208,768	14.41	123,983,906	8.74	57.45
Pension	961,269,805	70.96	1,059,014,665	74.69	(9.23)

Note: Details may not add up to totals due to rounding-off of figures.

P/ Preliminary figures.

the obligations of pre-need companies... Another factor that contributed to the problem is bad management and investment decisions made by pre-need companies. These actions have not been properly regulated by the SEC for a long time, in view of the lack of funding and regulatory framework for the industry." Angara further noted that there were approximately 4 million plan-holders in the country with approximately Php 66 billion (US\$ 1.55 billion) being held in trust to answer for their future benefits payable.⁵²

Consolidated industry performance data was not available at the time of this report. A table from the SEC website does show the performance of the industry in terms of sales, comparing June-July 2006 to June-July 2007. Overall, the number of plans sold was up by 9.74 percent, driven by a very strong increase in sales of life plans but

⁵⁰ Ibid

⁵¹ Philippine Business Magazine: Volume 12 No. 6 - www.philippinebusiness.com.ph/archives/magazine/vol12-2005/12-6/industry.htm

⁵² http://www.senate.gov.ph/press_release/2006/0708_angara.asp July 8, 2006: Senate of the Philippines, 14th Congress, Press Release

offset by a sharp decline in sales of education plans. The decline in education plan sales is probably a result of the CAP financial problems since it is the signature firm for this type of product. Sales figures by company and other breakdowns were not available which would have allowed a more in-depth analysis, e.g. on the range of premium amounts and type of client served. From this brief information, one could hypothesize that the public has not lost confidence in the industry as a whole but may have become more wary of buying education plans. Those that are still buying such plans seem to be buying higher coverage (average face value) which could indicate a shift in buyer profile.

3.2.3 Prepaid managed health care ⁵³

A health maintenance organization (HMO) is defined in various ways in available literature but in essence it is “a health care organization that acts as both insurer and provider of comprehensive but specified medical services”.⁵⁴ They offer plans through which members of the HMO may avail of a defined package of services with no out-of-pocket cost since these services have been prepaid.⁵⁵

In Philippines there are approximately 25 HMOs currently operating, of which 17 are the industry leaders and members of Association of Health Maintenance Organizations of the Philippines, Inc. (AHMOPI). Roughly 3 million Filipinos are covered.

HMOs are registered with SEC and licensed to operate by Department of Health (DOH) but this license is largely cursory. DOH does not have the capacity to regulate the insurance aspect and the industry would like to transfer that responsibility to the Insurance Commission. On the other hand, there is no medical expertise at the IC and therefore joint regulation would seem to work best.

Towards that end, several bills have been filed in both Houses. Recently, three separate Lower House Bills, although with inconsistent overall definitions of what an HMO should be, agreed that “an HMO must possess the following functional characteristics: it uses an organized system called managed care to coordinate the delivery of health services to its members through health care providers in a defined geographical area; it contracts the services of health care providers to deliver health care services to its enrollees and/or their dependents under an agreement; and it has an enrolled group of individuals paying a fixed periodic fee.”⁵⁶

The industry experienced some problems in recent years and at least twelve had to close down mainly because they were poorly capitalized, not well managed, and did not have adequate reserves. The environment at the time was characterized by cutthroat competition, rising health care costs of 15 to 20 percent annually, and reduced spending on employee benefits by most corporations. The problem was exasperated since there was no minimum capital requirement at the time; this has

⁵³ This section is based mainly on an interview with Carlos D. Da Silva, President of AHMOPI on December 4, 2007.

⁵⁴ Definition used in www.iconsdata.org/models.htm

⁵⁵ 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

⁵⁶ House of Representatives, 14th Congress, Committee News, Volume 13 No. 37

now been pegged at Php 10 million (roughly US\$ 235,000) by DOH, still far too low according to the AHMOPI president. Even now, only some HMOs employ actuaries, hence the basis and adequacy of industry reserves is not known.

There has since been a turn-around in the industry, brought on in part by more rational pricing and improved efficiency as the number of players was reduced in the market. Since there was no recent industry coverage or performance data available, the size and growth of the industry cannot be clearly presented here.

The industry is also lobbying for the exemption from EVAT for HMOs. Since the industry aim is provision of healthcare services, they should enjoy the same privilege as hospitals and clinics, which are EVAT-exempted⁵⁷.

3.3 Modes of microinsurance delivery

In the Philippines, although there are some individual approaches to microinsurance such as in the case of pre-need, group insurance is much more common (see Box 3.3a for its advantages). The usual channels are employers and organized groups that service the less affluent sectors of the population.

Box 3.3a: Advantages of group insurance

In implementing microinsurance, there are several important constraints that suggest a group approach to marketing and distribution, including:

- a) Economics- since the amount of coverage per individual is relatively small, fixed marketing and administration costs drive up the average cost per unit of coverage. Through group insurance, these costs can be significantly reduced to retain MI affordability.
- b) To reduce the effects of adverse selection, a wider participation level of the target population is required. This can be achieved more readily through group insurance, especially when it is possible to implement compulsory participation.
- c) Service providers such as medical practitioners usually offer discounts to groups.

Note: Adverse selection refers to the tendency of higher risk individuals to seek out more insurance coverage on average in anticipation of a greater probability of experiencing the insured event(s).

Programs are usually implemented in one of the following ways:

- a) **Partner-agent (PA)**, with one or more commercial or cooperative insurers providing products through an “agent” which acts as the delivery channel (more on the product providers in section 3.4). Typically the channel markets, enrolls, manages the databases, and facilitates the claims. This setup works particularly well for microfinance institutions (MFI) since they already have a loan repayment infrastructure in place on which premium collection and servicing can piggy-back with minimal marginal costs.
- b) **Partner-agent with a servicing intermediary.** In some cases the agent role is split between an intermediary which completes some of the channel’s administration work and the service organization such as an (agent) MFI which remains in direct contact with the insured families (more on intermediaries in section 3.6).

⁵⁷ Article on www.philippinebusiness.com.ph/archives/magazine/vol11-2004/11-6/industry.htm

- c) **MI-MBAs affiliated with an MFI, cooperative, or rural bank providing the products.** Functionally, this works similarly to the PA setup except that the insured clients of the channel are also the owners and members of the MBA. This model has evolved of late due to favorable regulations introduced by the IC and as a result of the technical services provided by RIMANSI, a network of MI-MBAs and microinsurance resource center (more on MI-MBAs and RIMANSI in sections 3.4.1 and 3.7.1). Typically, an NGO or similar group catalyzes and guides development of the MBA, and their clientele then becomes the MBA membership.
- d) **Informal insurance programs** usually mimic products from the commercial market but retain the risk in-house (details in section 3.4.7). These programs are integrated into the operations of organizations of many MFI-NGOs, cooperatives and rural banks. In the case of cooperatives, the schemes are automatically member-owned since it is an added service of the cooperative.
- e) Very often programs are **combination of all the above** - it is not uncommon, for example, for an MFI to source one product from an insurer but retain a second product in-house. Other combinations exist.

There are some distinct advantages and disadvantages to each approach. For example, advocates for a member-owned approach argue that it is more beneficial for the insured consumers (members) for the following reasons: a) More relevant products since members can participate in the product development; b) Better and more personalized servicing; c) Increased value due to more efficient delivery and tax-free status; d) Simplified underwriting and claim requirements; e) Fewer policy exclusions; f) Wider inclusion of the older and less healthy family members; g) Members own the surplus generated; and g) Other perceived advantages. On the other hand, the reduced size of the risk pool, limited resources, and the limited risk management capacity increases the likelihood of financial ruin, especially in the absence of a properly designed reinsurance program. In the case of informal programs, lack of supervision heightens these risks.

Some MFIs prefer the partner-agent approach since this requires fewer resources and does not dilute focus away from their core business such as banking, microfinance, and / or other businesses. These types of setups can pave the way for commercial insurers to serve the informal sector in a sustainable and profitable manner. The advantage for insured clients is the financial strength of the insurer due to superior management capacity of insurance companies, tighter regulations, and increased capitalization. As well, clients often benefit from enhanced access to other financial services. The disadvantages often cited include product misfit, excessive documentation requirements, lengthy claims processing, policy exclusions, exclusion of riskier events and older clients, and inflexible premium payment options.

3.4 Microinsurance providers (risk carriers)

Microinsurance provision is undertaken by a variety of private and public actors. Private providers can be classified as either

- a) Member-owned organizations of which there are three types: the MI-MBAS, cooperative insurers which are mainly owned by individual cooperators and cooperative institutions, and some of the informal programs;
- b) Commercial companies pursuing the MI market with a for-profit agenda; or
- c) Informal programs which are not member-owned.

There are three public providers: Social Security System (SSS), Government Security and Insurance System (GSIS), and Philippine Health Insurance Corporation (PhilHealth). All are briefly described in this section.

3.4.1 Microinsurance Mutual Benefit Associations (MI-MBAs)

In late 2006, IC Commissioner Evangeline Escobillo issued Insurance Memorandum Circular (IMC) No. 9-2006 which provided a definition of microinsurance and the basic requirements for registering a special kind of MBA permitted to provide only microinsurance services. Provisions include the following:

- There must be at least 5,000 members upon registration, to ensure adequate size of the risk pool;
- The MI-MBA can provide only microinsurance products as these are defined in the circular;
- Like regular MBAs, policies can only be issued to members (although this is interpreted by MI-MBAs to include their entire family);
- The MI-MBA must set up an initial Guarantee Fund of Php 5 million (US\$ 117,647) and thereafter, the fund must be built to an ultimate level of at least 25 percent of a new commercial insurer's capital requirement (which changes from time to time; see section 3.2.1). The significant enabling feature is that the buildup may continue for as long as necessary and this can be accomplished by adding 5 percent of all gross contributions (premiums) as these are collected from members.

The circular also includes the following section: "To ensure stability, viability, and the delivery of appropriate services to their members, microinsurance MBAs shall be evaluated and monitored on the basis of a set of performance standards to be established by the Insurance Commission covering the areas of solvency and stability, efficiency, governance, understanding of the product by the client, risk management, outreach, and such other areas deemed by the Insurance Commission to be critical to the continuing viability, growth, and development of microinsurance MBA's."⁵⁸ The IC has been working closely with RIMANSI (see section 3.7.1) on developing the performance indicators and standards but this work had not yet been finalized before Commissioner Escobillo was replaced. According to the new Deputy Commissioner, finalization of the indicators is currently on hold.

RIMANSI has been instrumental in the development of MI-MBAs and the enabling policy framework. Since its establishment in early 2005, it provided technical services to MFIs and cooperatives and assisted them with setting up their own MI-MBA. Table 3.4.1a summarizes the MI-MBAs that RIMANSI has spawned, depicting them at their various stages to date (with the exception of CARD-MBA which existed before RIMANSI and which was the base model for the others).

⁵⁸ Insurance Commission, 2006: Insurance Memorandum Circular (IMC) No. 9-2006

Table 3.4.1a: MI providers affiliated with RIMANSI

MBA	Status of MBA license	No. of members / families	Types of products	Operational areas
CARD-MBA	Licensed since 5/22/2001	393,136 as of August 2007	Life, credit life, savings, health, non-life	Nationwide
Rural Bank of Talisayan - MBA	Licensed since 09/16/06	11,540 (member enrolment ongoing)	Life, credit life, health	Misamis Oriental and Quezon City
ASKI-MBA	Licensed since 10/10/06	11,694 (Total MFI clients 46,815 – ongoing enrolment)	Life + integrated credit life	Central Luzon
KSK-MBA	Licensed since 4/19/07	10,282 (Total MFI clients 10,673 – ongoing enrolment in MBA)	Life, credit life, health	Bulacan, Rizal and Quezon City
Ad Jesum	Licensed since 07/27/07	2,322 (Total MFI clients 13,206 - ongoing enrolment in MBA)	Life insurance	Davao Oriental
First Community Credit Cooperative (FICCO)	Licensed since 11/26/07	23,000 (Total clients 102,331 – ongoing enrolment in MBA)	Life, credit life, health	Mindanao
Center for Community Transformation (CCT) - MBA	Pending CCT board approval	121,103	Life insurance	Nationwide
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	Approx. 28,000	Life insurance	Northern Luzon
Agricultural and Rural Development for Catanduanes, Inc (ARDCI)	Was not recommended for licensing	Approx 23,000 as of June 2006	No registered products	Catanduanes, Albay, Sorsogon and Camarines Sur
People's Bank of CARAGA	Market research stage	Approx 40,000	TBD	CARAGA Region
		Approximately 686,000 families		

* RIMANSI Partner update as of 30 August 2007, with FICCO licensed in November 2007

**Number of individuals covered is computed here using no. of members x 5 (member+ spouse+3 children). However, CARD MBA insures all the children of the member. Single members may enroll other family members such as parents.

There is at least one large MI-MBA that is not affiliated with RIMANSI- TSPI-MBA which, according to their website, now has approximately 150,000 members.

MI-MBAs are permitted to carry only life, health, and savings products but not non-life products. Each product must be developed with assistance from an accredited actuary and must be approved by the IC.

3.4.2 Co-operative insurers

Co-operative insurers in Philippines are registered under Chapter XV of Republic Act 6938, the Cooperative Code of the Philippines. Excerpts from the Code describe the requirements as follows, “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 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.⁵⁹

In summary, regulators currently allow co-operative insurers to provide the same insurance products as a commercial insurer with just 50 percent of the paid-up capital requirement of commercial insurers (see section 3.4.3).

Currently there are only two registered cooperative insurers - Co-operative Insurance System of Philippines (CISP) and Coop Life Insurance and Mutual Benefit Services (CLIMBS). In 2006 former Commissioner Escobillo asked the two companies to merge since CISP had been experiencing financial problems and had already been put under Conservator by the IC. The merger has since stalled however and the financial problems of CISP probably contributed to CLIMBS' recent strong growth as it has assumed much of the existing CISP business.

Established in 1971 without any capital and without a license, CLIMBS grew steadily to become a major supplier of microinsurance products, covering approximately 200,000 families. At least 80 percent of its shares are owned by the cooperative system. Credit life makes up roughly 2/3 of its business and other life, accident, and savings products accounts for almost all of the remaining. Most of its products are channeled through general agents who in turn service around 800 co-operatives, NGOs, and rural banks nationwide. CLIMBS is now applying for a non-life license and expects to get it in 2008.

3.4.3 Commercial life and non-life companies

Some commercial insurers have been pursuing the so-called "broad C"⁶⁰ market for some time. Mercantile, CocoLife, Sun Life and ManuLife have already set up partnerships with MFIs⁶¹. Philippine Prudential Life Insurance Company has been providing products and co-insurance to CLIMBS for at least ten years now and has recently become one of its share-holders. Country Bankers has been providing credit life to MFIs, rural banks, and cooperatives for 42 years and its outreach currently numbers around 300,000 clients⁶². Mercantile, CCC Insurance Corp and other non-life companies have been providing non-life products to the co-operative and down-

⁵⁹ Republic Act No. 6938, An Act to Ordain a Cooperative Code of the Philippines, Chapter XV, Articles 115 to 117

⁶⁰ The Philippine population is commonly segmented into A,B,C,D,E market segments with the A segment being the most affluent and E being the poorest of the poor. "Broad C" could be interpreted as the "C to high D" or the "not-so-poor but still poor" segment.

⁶¹ Wiedmaier-Pfister, M., Llanto, G., Portula, D., Jowett, M., July 2007: GTZ MIP Pre-Appraisal Report

⁶² RIMANSI December 2007: GTZ Microinsurance Innovations Project, Supply and Policy Environment Survey

market, and Pioneer has recently teamed up with CARD-MBA with their “three-in-one” bundled product. In almost all cases these are group products, usually with a compulsory participation requirement.

There are also signs that the down-market is getting more competitive as more commercial providers enter. According to Negroes Women for Tomorrow Foundation (NWTF), and as the RIMANSI survey also reports, there is now more effort to customize products - five years ago commercial providers would approach NWTF with a menu of choices and a “take-it-or-leave-it” attitude - none wanted to design the package that NWTF proposed. Finally, in 2003 they found an insurer that did listen, and they have partnered with them since to cover 63,000 clients and their families.

3.4.4 Pre-need companies

Pre-need companies generally market their products as individual plans. Company agents approach prospective customers with high, medium, and low income levels. Since products are usually unitized, they are also affordable for the lower income market since policyholders can buy the number of units that they can afford. There is no available breakdown of industry sales by market segment⁶³ and therefore it is unclear to what extent these plans are being bought by the lower income population.

Aside from the problems mentioned earlier, there are other concerns with the provision of pre-need products. Commissions on first and second year premiums range as high as 50 percent, and this leads to very aggressive selling, undoubtedly to reluctant buyers at times. After the second year, commissions are drastically reduced, and this has the effect of refocusing agents on generating new business rather than on collecting from existing plan-holders. Since too many buyers were reluctant to buy in the first place, there is a high dropout rate and as a result of the relatively low minimum surrender value required by SEC, companies profit excessively from these early cancellations at the expense of the plan-holder.

Unlike agents in life and non-life sector, pre-need agents are not properly licensed. According to SEC, this leads to consumer exploitation, especially in the lower income market where the buyer is often not well educated. Combined with industry agents’ aggressive salesmanship and a lack of proper training, many consumers are being misled since they do not understand the products and policy provisions well enough.

3.4.5 Health maintenance organizations (HMOs)

Access to existing HMOs appears to be largely reserved for the higher income and formal sectors. Most HMOs focus on employer groups, and often these groups are large self-insured accounts with the HMO providing only administration services. Of the roughly 3 million Filipinos covered by HMO plans very few belong to the

⁶³ The MIP Appraisal Mission Team was told by SEC that there is no breakdown of policyholders by market segments.

informal sector. A handful of HMOs are however seeking down-market opportunities through co-operatives and MFI-NGOs.⁶⁴

3.4.6 Public providers

Public providers SSS and GSIS provide basic life insurance, accident insurance and pension plans for employees of the formal sector. SSS has tried to reach the informal sector but with very limited success. GSIS only focuses on government employees.

A third public provider, PhilHealth, was established in 1995 to take responsibility for the implementation of the National Health Insurance Program created under Republic Act 7875. It was tasked to administer the former Medicare program for government under the GSIS and private sector employees under SSS. The National Health Insurance Program “shall provide health insurance coverage and ensure affordable, acceptable, available and accessible health care services for all citizens of the Philippines.”

PhilHealth implements the following programs that are intended to be the vehicles for universal coverage:

- Employed sector program
- Overseas workers program
- Individually paying program (including KASAPI)
- Sponsored (indigent) program (IP)
- Non-paying program

Table 3.4.6a - PhilHealth membership as of June 2007

Sector	# of Members	# of Beneficiaries	Members proportion	Beneficiaries proportion
Government, employed	1.29 million	5.38 million	8.6%	8.7%
Private sector, employed	6.56 million	23.40 million	43.7%	37.9%
Overseas workers program	1.41 million	6.12 million	9.4%	9.9%
Individually paying program (of which KASAPI is one program)	2.01 million	9.15 million	13.4%	14.8%
Sponsored program (IP)	3.45 million	17.25 million	23.0%	27.9%
Non-paying	0.30 million	0.51 million	2.0%	0.8%
Total	15.01 million	61.82 million	100.0%	100.0%

Despite declarations of these public schemes that they are covering the poor, the existing social insurance schemes fail to cover the informal sector. Statistics show that the majority of their members belong to the formal sector as represented by regular employees⁶⁵. For PhilHealth though, coverage of the informal sector appears to be improving - in 2005 Llanto et al. reported that 75 percent of PhilHealth’s members were private and government employees - i.e. practically belonging to the formal sector, but this has now decreased to 52 percent.

⁶⁴ According to Carlos D. Da Silva, President of AHMOPI who met with the MIP Appraisal Mission Team on December 4, 2007.

⁶⁵ Gilberto Llanto, Joselito Almario and Marinella Gilda Gamboa, (2005): “Microinsurance: Issues, Challenges and Policy Reforms”

Kilusang Sigurado at Abot-Kaya sa PhilHealth Insurance (KASAPI)⁶⁶ program “aims to help a range of organizations like MFIs and cooperatives to provide social health insurance to their members through an affordable group payment scheme under the National Health Insurance Program (NHIP).”⁶⁷ With more than 1,500 facilities and more than 19,000 accredited health care professionals nationwide, PhilHealth is the biggest health provider network and thus, KASAPI has the potential of providing those outside the national health insurance program with basic in-patient benefits, thereby significantly contributing to universal coverage.

KASAPI program is being pilot-tested in 8 regions: Regions I (Ilocos), III (Central Luzon), IV-A (Southern Tagalog), VIII (Eastern Visayas), CARAGA, X (Northern Mindanao) and XI (Davao). Fifteen microfinance institutions consisting of three microfinance NGOs, one rural bank and eleven cooperatives participate in the program. As of November 30, 2007, there were 5,390 families/clients enrollees in the program.

Under KASAPI, the MFIs and cooperatives act as marketing and collection agents for PhilHealth insurance to reach the informal sector. To participate, the following conditions must be met:

- *Group size:* at least 1,000 members who are qualified under the individually paying program.
- *Number of enrollees:* For the organization (MFI) to qualify for group premium rate, at least 70% of the group size must be enrolled in PhilHealth. The group premium rate will be even lower if participation is larger, e.g., 85 percent enrolled.
- *Mode of payment:* annual, semi-annual, quarterly.
- *Group premium:* Computation of group premium is done through a premium schedule called a group band. Group bands are determined based on the mode of payment, group size and the percentage of members enrolled in the NHIP. There are seven bands in the schedule divided according to group size. Group size is classified according to the percentage of membership enrollment in the NHIP (whether 75% or 85%).

A principal constraint to the implementation of KASAPI is the competition provided by government’s Sponsored Program, that is, the Indigent Program (IP), also a component strategy of the NHIP. The tax-financed IP and the individually paying, member-financed KASAPI are both implemented and managed by PhilHealth. Fifty percent of the premium contribution of IP is paid by the national government while the remaining half is shouldered by the local government. The premium subsidy motivates the migration of beneficiaries (who are not indigents) from KASAPI to the sponsored programs. The leakage bloats the budget for premium subsidy and the free riding creates a big fiscal burden for the IP. KASAPI is adversely affected because of the reduction in both coverage and the associated revenue generation. There is a need for better targeting mechanisms to determine eligibility to the IP.

⁶⁶ This draws from Gilberto Llanto, “Protecting the Vulnerable through Social Health Insurance: PhilHealth’s KASAPI as a Strategy,” PIDS Policy Notes, December 2007

⁶⁷ KASAPI Guidebook, 2004, page 7.

Partner MFIs have raised complaints against the inefficiency in the information system called the KASAPI Members Information System (KMIS) that is installed by PhilHealth in partner MFIs to enable those organizations to encode members' data, record premium payments and prepare remittance reports. There is a need for a standardized data collection system, a computer-based bookkeeping and control system to deal with the voluminous data and information generated by thousands of MFI/cooperative clients or members.

Partner MFIs complain that they should not be treated as mere collection agents by PhilHealth. They can also contribute to product design, marketing and in developing complementary health insurance products, e.g., outpatient health packages, that they feel the members need very badly. There should be continuous product development and marketing of a suitable and affordable health insurance package for the informal sector. Well-designed health insurance products encourage membership in KASAPI.

The Memorandum of Agreement of the MFIs and cooperatives with PhilHealth stipulates information and education (IEC) campaigns on the policies, rules and regulations related to the benefits under the NHIP, procedures for availing of the benefit package and the members' rights and obligations under the NHIP. The implementing MFIs complain about the lack of information materials on KASAPI and the potentially huge expense on their part in mounting IEC campaigns.

Membership in KASAPI is voluntary. Because membership is voluntary, it is difficult to reach the whole of the target population of KASAPI. This also raises the problem of adverse selection if the MFI's operation is focused on a narrow membership base and area. However, compulsory membership in KASAPI is possible. With proper incentives and motivation, the MFIs can convince their members to have compulsory membership in KASAPI.

According to MFIs, member-beneficiaries want a health insurance program that is both affordable and accessible in terms filing of claims, settlement of claims and other related administrative procedures. The affordability of the health insurance package depends also on the mode of payment, e.g., flexible payment methods that are adjusted to the cash flow of informal sector workers and microenterprises. In this sense, PhilHealth in cooperation with MFIs and Cooperatives as aggregators can make KASAPI more attractive by having a system of premium collection and remittance that is flexible, adjusted to the irregular cash flow of members and requiring minimal documentation.

Accessibility of health care relies on the physical location of health facilities and professionals. A big MFI observed that the majority of its members are located in far flung rural areas where there are no PhilHealth accredited hospital or clinic. The high cost of local travel and distance reduce the attractiveness of KASAPI. Some MFIs believe that accredited and well-staffed clinics would provide the desired accessibility to basic health services and that they will be willing to consider investing in clinics with proper incentives.

Another issue is whether or not it is feasible to reduce the group size from the present requirement (at least 1,000 members). PhilHealth is doing actuarial studies to determine its feasibility.

3.4.7 Informal providers

As mentioned, many organizations maintain self-insured microinsurance programs which take on a variety of forms. In this report, all such programs are considered informal if they are not registered with the applicable regulator (IC, SEC, or DOH) regardless of the legal status of the sponsoring organization⁶⁸.

Most self-insured programs provide life and burial assistance but others also include health and other coverages. Some, like Cebu CFI Community Cooperative, have been very successful. In 1996 this cooperative decided to respond to the health care needs of its members and at first it partnered with Philippine-American Life Insurance Company (PhilAm) who provided a healthcare package for all its member-borrowers. Participation was compulsory; to get a loan the member had to enroll in the program. After a year of operation, the board decided to retain the program in-house, duplicating the exact same premium and package of benefits. This program currently covers most of the cooperative's 28,000 members and to date it has accumulated a surplus of Php 72 million (US\$ 1.7 million). According to CLIMBS' Management, this is very typical of how many in-house programs get started.

The RIMANSI survey (2007) cited the main reasons why organizations set up in-house programs:

- To supplement insurance provided through tie up with a commercial insurance provider;
- To speed up processing & payment of claims;
- The in-house program can make its own independent decisions;
- To strengthen the sponsoring MFI operations;
- 'Easiest' way to provide services to clients.⁶⁹

For years, regulators have been concerned with the large number of informal schemes, but are also aware that these have flourished in part because formal providers have not responded well to the true needs of less affluent Filipinos - and therefore to some extent, they have turned a blind eye since these programs fulfill a very important social and financial need. On the other hand, some formal providers (e.g. CLIMBS) argue that the incapacities and tolerance of regulators contributes to the proliferation of informal insurance, and that these programs put them at a great marketing and cost disadvantage.

3.5 Microinsurance products

3.5.1 Life insurance

Since the majority of organizations distributing MI usually provide some form of loan product, by far the most common offering is credit life insurance (also commonly known as loan protection). Typically, coverage is limited to the borrower and is co-terminus with the loan. Coverage may either be level throughout or limited

⁶⁸ IAIS considers in-house programs as semi-formal if the sponsoring entity is formally registered.

⁶⁹ RIMANSI December 2007: GTZ Microinsurance Innovations Project, Supply and Policy Environment Survey

to the scheduled outstanding balance of the loan. As mentioned, credit life made up roughly 2/3 of CLIMBS' business in 2006⁷⁰.

Of the fourteen organizations included in the RIMANSI supply study, thirteen provided credit life insurance (see Table 3.5.1a). Other common types of products offered are term life, mortuary and burial assistance, accident, retirement, and medical or health insurance.

Table 3.5.1a: Basic Types of Microinsurance Products Provided to MFI Clients

Product	Co-ops	Rural banks	NGOs	MBA	Insurers	Total
No. reporting	4	4	4	1	1	14
Credit life (loan protection)	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

Source: RIMANSI SUPPLY AND POLICY ENVIRONMENT SURVEY, November 2007

For most if not all MFIs, credit life is a mandatory requirement for accessing credit. It protects the borrower's family from being burdened with the outstanding balance of the loan in case of the borrower's death and also protects the MFI from having to collect from the surviving family. In some countries coverage is often extended to other family members but this is not common in Philippines. Some versions also pay in case the borrower is totally and permanently disabled. Although frequently requested by lenders, credit life insurance does not pay in case of loan default due to business failure or due to any event that is within the possible control of the borrower since these types of events are not insurable.

Almost all MI programs offer other life products such as group yearly renewable term (GYRT), whole life, term-to-65, or similar products. Some offer composite products which include a credit life feature. For example, borrowers may be required to pay a weekly premium for level life coverage of the entire family. If the borrower dies the outstanding loan balance is deducted from the benefit payable, whereas if other family members die none or only a portion of the benefit payable is applied to reduce the loan balance. There are many variations of this basic theme across programs. Simplified administration is one of the main advantages since the entire family is covered with just one product.

3.5.2 Health insurance

Although surveys consistently indicate a strong demand for comprehensive health microinsurance coverage there are very few responsive products offered in the market. This would appear to be a great market opportunity for the PhilHealth KASAPI program but due to its various shortcomings, there has been very minimal penetration of the informal sector.

⁷⁰ From CLIMBS 2006 Annual Report

Six of fourteen organizations in Table 3.5.1a are flagged as offering health insurance but there are few details provided in the RIMANSI report. It is likely that most source products from commercial insurers and if so, may be characteristically limited to a) medical reimbursement in case of hospitalization due to accident; or b) daily hospital income in case of hospitalization (for any cause).

Since the HMOs are not servicing the informal sector, there are some cooperatives that have set up in-house health programs. Very few programs, however, offer comprehensive medical insurance and health services comparable to Cebu CFI, one of the co-operatives included in the RIMANSI survey.

The MIP Appraisal Team also visited Cebu CFI Community Cooperative to study their health insurance program. Since it started in 1996, it has expanded to three packages that members can choose from - Package 1 is mandatory for all borrowers, however an upgrade to package 2 or 3 is possible provided that they undergo an examination at the coop’s clinic. In Cebu the coop pays the service providers directly and hence it is cashless for the member, however in branches outside Cebu the member is required to settle the bill for which she is reimbursed.

The program is integrated with PhilHealth which is first payer, and there is co-ordination with PhilHealth for provider accreditation and setting service fees.

In Cebu, except in emergencies, members are diagnosed at the coop’s clinic and referred to an approved hospital as necessary. This greatly reduces costs since inpatient admission is controlled by the coop’s own nurses and doctors. Families of enrolled members can also access the clinic for outpatient services.

Table 3.5.2a: Cebu CFI health insurance options for its 28,000 members

Package	Access	Main features
Package 1	Mandatory for all borrowers, voluntary for borrower’s family	<ul style="list-style-type: none"> • 1,200 per annum, amortized with loan, automatic renewal • Ward accommodation to 550/day • Max 20,000 per annum inpatient coverage
Package 2	Upgrade from package 1 with health evidence	<ul style="list-style-type: none"> • 2,800 per annum, amortized with loan, automatic renewal • Semi-private accommodation • Max 40,000 per annum inpatient coverage • Cashless in Cebu, reimbursement in other branches
Package 3	Upgrade from package 1 with health evidence	<ul style="list-style-type: none"> • 3,600 per annum, amortized with loan, automatic renewal • Private accommodation • Max 60,000 per annum inpatient coverage (cashless in Cebu, reimbursement in other branches)

There have been some other limited responses by formal providers. CLIMBS recently initiated two pilot health programs - one of these is still being developed in partnership with HealthDev Institute and the German development organization AWO International (more on HealthDev in section 3.7.2) and Mindanao State University – Institute of Information Technology (MSU-IIT) employees co-operative, while a second pilot in partnership with a multi-national company IMS Health⁷¹ and

⁷¹ **IMS Health** is an international consulting and data services company that supplies the pharmaceutical industry with sales data and consulting services. Based in US, it operates in over 100 countries and has over 7700 employees. For more, see www.imshealth.com.

Toril Community Co-operative has already been launched. Both of these programs are integrated with PhilHealth. CARD-MBA is also experimenting with two pilots in southern Luzon. Recently licensed RBT-MBA and FICCO-MBA have been carrying in-house programs for years but these provide only very basic inpatient benefits.

In summary, there is a great unmet demand and opportunity to develop health microinsurance. This gap exists because health care and insurance providers have yet to develop solutions that truly work as well as the Cebu CFI program. Efforts should be made to integrate with PhilHealth KASAPI but this depends more on the public provider's flexibility and willingness to co-operate. In a public forum in Manila several years ago, PhilHealth Management lambasted donors for supporting health microinsurers since it is mandated to provide universal coverage.

3.5.3 Pension products

Only two of the fourteen organizations in the RIMANSI survey offer savings products (i.e. pension or retirement products). This result is typical in the Philippines and one probable reason is that pension products compete with the MFIs' own savings products.

The individual pension market has been pursued for years by the pre-need industry which offers unitized products rather than specially designed micro-pension products - that is, the same product is offered to all market segments with the planholders availing as many units as they can afford. Usually, the products are designed as 5, 10, 15, or 20-year pay products, maturing at age 65 or after a fixed number of years with a guaranteed maturity value. If the contributor dies then the plan is automatically paid up - this is an inherent life insurance feature. Many pre-need pension products represent less than optimal value due to the high commissions paid to individual agents and since they have very low surrender values. As well, with the relatively lax regulation of pre-need companies, their fiduciary capacity is questionable.

CLIMBS' Co-op Employees Retirement Plan (CERP) has been around for at least 15 years but has not been popular with co-operatives due to its limitations. Although the product is designed for coop employees, some coops make it available to their members. Both co-op employer and employee contribute, but the employer portion is vested in stages based on the employee's years of service. The product is unitized and there are no minimum or maximum contribution limits. Each payment is tracked and since there is no fixed maturity value, payment gaps are of no significance. The product concept of employee-employer joint contribution is sound but according to CLIMBS Management the product needs to be refurbished with more competitive features and attractive investment returns.

CARD MBA also has a simple pension product with members contributing Php 5 (US\$ 0.12) per week. The product matures at age 65, the age when members must exit the MBA. There is no fixed maturity value since the MBA prudently promises a fair accumulation interest rate linked to actual investment returns (i.e. it does not promise a fixed rate to maturity, a dangerous practice).

According to the ILO representative interviewed by the Mission Team, there does not appear to be a well developed savings culture among lower income Filipinos. He feels that this is a very important issue to address through education, with a special focus on Filipino Overseas Workers (OFWs) and on younger generations. ILO would like to develop a financial planning handbook to help OFWs realize their financial objectives which are the basis for seeking work abroad in the first place.

The existing pension products in the market are very simple accumulation products without an annuity phase. This could be due to lack of demand as well as underdeveloped domestic bond and secondary mortgages markets, a necessary requisite for developing such products.

3.5.4 Education products

Surveys by ILO and others indicate a strong demand for education savings plans. In the Philippine market, these types of products are marketed by pre-need companies, usually as 5 or 10-year pay plans. Recent problems of some pre-need companies however has dampened consumer confidence with a drop in number of plans sold by 24 percent (see section 3.2.2). Like pre-need pension products, these plans are unitized and are characterized by high commission rates and limited surrender values.

At least some cooperatives have offered their own informal versions in the past, perhaps lured by the potential of raising funds or due to the dissatisfaction with commercial products in the market. Whatever the reason, they are taking a very large risk since long term accumulation products with fixed maturity values require professional investment management and actuarial guidance.

The Mission did not conclusively establish if there are any MI-MBAs or commercial insurers offering similar plans- in any case, this appears to be a market gap and an opportunity.

3.5.5 Other microinsurance products

The RIMANSI survey found at least one MFI that lamented the lack of crop insurance in the market. These products, according to Microinsurance Agency of Philippines (MIAPh), are badly needed to assist farmers and to stabilize MFIs' agricultural loan portfolios. MIAPh has recognized this tremendous market opportunity and initiated research to develop weather-based index crop insurance. One of the stumbling blocks is getting reliable data from Philippines Atmospheric, Geophysical & Astronomical Services Administration (PAGASA) at a reasonable price.

A recent International Workshop on Overcoming Obstacles to Agricultural Microfinance, organized by SEARCA and CARD MRI on March 1-2, 2007 highlighted the critical need to develop more applicable risk management instruments such as weather-based index insurance to shield farmers and rural-based economic agents from the vagaries of the weather and natural calamities. Subsequent discussions by one of the consultants with the Department of Agriculture (DA) underscored the general failure of the government's crop insurance program and the need to develop

weather insurance as an appropriate response to the farmers' complaints about flooding, drought, and typhoons. The DA Secretary has instructed the Philippine Crop Insurance Corporation to review the implementation of the crop insurance program and to develop appropriate risk management instruments for farmers and fisher-folk in general.

CARD-MBA has recently launched its "three-in-one" bundled product which contains modest coverage for the member's house. The MBA carries the life risk while a commercial non-life insurer assumed the non-life portion. This is the first microinsurance product for this insurer who in an interview said that there are few non-life microinsurance products in the Philippine market.

Box 3.5.5a: Product bundles

In other developing countries such as India, non-life products such as hut insurance and livestock insurance have been around for some time. Often these are bundled with life and health products with different insurers carrying the various risks. There are advantages and disadvantages that come with this approach – costs can be reduced by bundling and there are also some marketing advantages. One disadvantage is that if one product experiences bad servicing it will negatively affect the market appeal of all the products in the bundle.

In the meeting with International Finance Corporation (IFC), they recommended development of insurance products to cover productive assets. This seems to be a natural fit to complement microfinance and SME loans since most are for production purposes. CLIMBS for one may be aiming to tap this unmet demand since it is in the process of upgrading its license to a composite insurer which will enable it to provide non-life products to the co-operative market.

3.6 Microinsurance intermediary- MIAPh⁷²

Opportunity International is a faith-based non-profit global network of microfinance organizations. It has lending operations in 29 countries serving over 900,000 active borrowers with a loan portfolio in excess of US\$ 290 million.

The Micro Insurance Agency (MIA) Holdings, LLC is a fully owned subsidiary of Opportunity International. It is a holding company with its head office located in Oak Brook, Illinois and operates fully-owned subsidiaries in several countries of operation.

The head office provides all technical and strategic leadership to the subsidiaries which operate as local relationship managers and data processing centers. MIA subsidiaries are incorporated as local businesses and regulated as insurance agents or brokers working with locally regulated insurance companies.

In February 2007, MIA Holdings LLC set up a subsidiary in Philippines, Microinsurance Agency Philippines (MIAPh), which operates as a national licensed microinsurance agent. Currently, MIAPh provides life products sourced exclusively from Coco Life Insurance Company but this will soon change as its license is upgraded to a broker. MIAPh partners with five MFI members of the APPEND

⁷² This section was adapted from Wiedmaier-Pfister, M., Llanto, G., Portula, D., Jowett, M., July 2007: GTZ MIP Pre-Appraisal Report, and augmented from the interview with MIAPh Management.

network and as of October 2007 it had covered 635,000 borrowers and their families through MFI 120 partner branches in 38 provinces.

According to the MIAPh Manager, the standard approach is to carry out market research with target clients and work with the existing organizations such as MFIs that serve them to find out what their needs are. They then seek to address these needs, taking into account the availability of insurance supply and local regulatory requirements. On the other hand, he also said that it would be “difficult” to customize products for specific MFIs.

Aside from products, the main thrust of MIAPh is to provide value-added administration services such as the following:

- Encode the data in its own administration system which is transmitted daily to its head office in USA where data checks and reports are generated;
- Provide training for MFI staff and management on microinsurance in general and about the various product-specific administration procedures; and
- Facilitate all claims by making sure that documents are in order, advance claims payment, and deal directly with the insurer.

In general, MIAPh provides an interface to reduce the administration load for both insurer and distribution agent (the MFI). This reduces costs for both parties and hence MIAPh claims a piece of the administration loading inherent in the pricing of its products. Furthermore, the MFI benefits from preferred rates and better servicing while the insurer stands to gain higher business volume. The concept is similar to that of full service brokers in more developed insurance markets.

Aside from the current life and credit life product offerings there are plans to develop health and crop insurance. For this MIAPh requires funding and technical assistance. For crop insurance, MIAPh plans to partner with Department of Agriculture (DA), PAGASA, Swiss RE, UCPB General Insurance Company, and Philippine Crop Insurance Corporation.

The following health-related initiatives are either planned or already underway:

- GTZ exploratory study to provide additional benefits over and above provided by PhilHealth such as trauma patients and emergency cases.
- Exploring the possibility of providing service support to the informal sector to facilitate their membership and continuous enrollment with PhilHealth.
- Exploring participation in the GTZ PhilHealth KASAPI program.
- Appointing a consultant to TSKI Hospital Care Employees Program.
- Tripartite talks with TSKI, MIAPh and Unilab for “Botika Sa Barangay” to provide low cost medicines on the village level.
- Currently undertaking studies for special interest groups, such as archdiocesan priests, parole officers and electric cooperatives.
- Formulating a package of healthcare, mortuary assistance, and pension plan for employees of MFIs.

In a recent meeting with the director of MIA (Richard Leftley) in Mumbai, he expressed interest to closely cooperate in the future with GTZ in the Philippines.

3.7 Microinsurance supporting organizations

3.7.1 RIMANSI⁷³ Organization of Asia and Pacific

RIMANSI Organization of Asia and Pacific, Inc is a not-for-profit non-stock NGO established in early 2005 by several leading MFIs in Philippines. The idea was to establish a resource center which would provide technical services to microinsurers in Philippines and South East Asia. Its vision is “a network of professionally-managed mutual benefit associations that provide affordable, comprehensive, quality risk protection to millions of poor people in the Philippines and Southeast Asia”. Its mission is to be “a resource center that develops and offers risk management solutions to member-owned micro-insurers, especially mutual benefit associations, strengthening their capacity in providing risk protection services to the poor on a sustainable basis”⁷⁴.

Currently, RIMANSI promotes the MBA model in Philippines. Initially, the organization mainly replicated the so-called CARD-MBA technology and relied on the CARD MBA personnel as implementation consultants.

The persistent efforts of RIMANSI were instrumental in the realization of IC Memorandum Circular (IMC) No. 9-2006. This opened the door for MI-MBAs which it also helped to establish (see section 3.4.1). In Vietnam, Cambodia, and Indonesia RIMANSI has been similarly assisting policymakers with establishing an enabling environment for mutual insurance organizations.

The current package of technical services consists of business development support that leads to the registration and licensing of a MI-MBA in Philippines or a permit to operate a pilot micro-insurance program in countries that do not yet have a regulatory framework for mutuals. Specific services under this package are contracted between RIMANSI and a client institution and include: pre-feasibility and needs assessment, market research, business planning, product design, actuarial projections, operations training, implementation support, registration and licensing, and ongoing mentoring of management.

The RIMANSI business plan⁷⁵ lists the additional services to be developed as annual performance audit, annual strategic business review, MIS and operating systems upgrade, new product development, performance indicators development, and others. Its client-members have recently made it clear that priorities lie in development of Management Information Systems (MIS), health insurance products, and catastrophe cover reinsurance.

⁷³ RIMANSI is an acronym for Risk Management Solutions, Inc., which was the first choice of name that the organization wanted to register but this was turned down by SEC since it sounded too much like a for-profit enterprise.

⁷⁴ From www.rimansi.com

⁷⁵ Source: RIMANSI Business Plan of September 2006

3.7.2. HealthDev Institute⁷⁶

Health Alternatives for Total Human Development Institute, Inc. (HealthDev Institute) describes itself as a non-stock, non-profit, non-governmental organization that supports individuals, organized groups and communities in the active pursuit of good health and well-being through capability building and the setting up of appropriate systems and services. It promotes development of self-help healthcare systems and supports a more holistic approach to medicine, integration of traditional practices with modern medicine, and with an emphasis on preventive care. It envisions to be an expert contributing to the creation of a health care system that is a) Progressive and responsible; b) Accessible and equitable; c) Systematic, scientific, and excellent; d) Holistic, alternative, and inclusive; e) Integrated, systemic, and comprehensive.

The HealthDev Institute grew from the urban health movement. During its inception in 1990, it established an Occupational Health & Safety Program for urban factory workers. Subsequently, the program added the provision of direct conventional and traditional medical services health care services. Its mission today is to be a resource center that “builds models of health care delivery systems and provides health care services that mirror the Institute’s philosophy as an innovator of health systems and provider of quality services”. It lists its strategies as

- Innovations in healthcare services;
- Model building on social health insurance; community based water and sanitation systems; school health; occupational safety and health; primary and community-based healthcare;
- Capability building, capacity enhancement and systems development; and
- Multi-stakeholder and participatory partnership.

True to its planned strategy, HealthDev partners with Ateneo de Manila University, AWO International, Batanes Government, PhilHealth, CLIMBS and others to implement its various programs. One interesting project has been in partnership with AWO and the Batanes provincial government - a community based health insurance pilot project was implemented which seeks to cover the entire Ivatan population of about 15,000 persons on three islands. The pilot was launched in 2003 and has been called a success.⁷⁷ The Mission Team did not get a chance to meet with HealthDev or AWO to learn more about the project.

3.7.3 Other institutions

Other potential supporting agencies include academic institutions, research institutes, accounting and consulting firms, and training institutes. There are a number of such institutions who could be tapped as supporting agencies to microinsurance.

Among the academic institutions are following: Asian Institute of Management, Ateneo de Manila University, De La Salle University and the University of the Philippines. The last three institutions have branches or affiliate institutions located

⁷⁶ Source: www.healthdev-institute.org

⁷⁷ See www.geocities.com/kapanidungan for more information about this project.

in different parts of the country, which are accessible to MBAs or commercial insurance providers. Public as well as private research institutes such as the Philippine Institute for Development Studies, Social Weather Stations, Inc., the Ateneo Center for Economic Research and Development, De La Salle Center for Business, Economic Research and Development and the Financial Executive Institute of the Philippines (FINEX) Research and Development Foundation can conduct research and policy studies on issues and practices impacting microinsurance.

Training institutes such as the Ateneo-Bankers Association of the Philippines Institute of Banking offer periodic seminars on banking and finance. CARD Development Institute conducts training courses on microfinance and microinsurance. The Association of Investment Management and Research (AIMR) offers review sessions for the Chartered Financial Analyst (CFA) exam. The Financial Executives Association of the Philippines (FINEX) offers the Financial Management and Analysis Test (FMAT). The Securities and Exchange Commission and the Philippine Stock Exchange conduct various internal training programs to meet the needs of their finance professionals. The Asia-Pacific Institute of Development Finance (IDF), the professional training and career service center of the Association of Development Financing Institutions in Asia-Pacific (ADFIAP) has a training portfolio consisting of a variety of subjects in development banking and management.

The five biggest accounting firms in the country provide services and training on auditing, accounting, bookkeeping and related services. They provide management accounting services that provide business advice and strategic directions for companies. Other services include the following: bookkeeping, income tax preparation, business valuations, investment advice, accounting system organization. The top five accounting firms are Sycip, Gorres, Velayo and Company (SGV); Joaquin Cunanan and Company; Punongbayan and Araullo; Laya, Mananghaya and Company, and CL Manabat and Company.

For example, PhilHealth has commissioned the Asian Institute of Management to develop a course designed for PhilHealth's top executives. It has also tapped the Polytechnic University of the Philippines (PUP) for encoding the quarterly contribution records of PhilHealth members. Under a Memorandum of Agreement between PhilHealth and the PUP, the Information and Communications Technology Center (ICTC) of this University will provide the necessary expertise and resources to perform the encoding services. They will also recommend solutions to IT-related problems identified in the process and ensure the integrity and security of the data encoded, particularly the employers' remittance records.

3.8 Demand for microinsurance

According to the ILO, the informal economy generated 76.3 per cent of employment in the Philippines in 2005.⁷⁸ While this number has dropped from a decade ago, there is unlikely to be a significant reduction by 2015.

⁷⁸ International Labor Organization Quarterly Newsletter, "Decent Work For All", Vol. 5 Issue 2 July 2007

The ADB reports that employment composition in 2000 was as follows: a) 38 percent agriculture; b) 47 percent services; and c) 15 percent industry. Employment in agriculture is largely informal and while the trend in most economies (including Philippines) has been towards a reduction in agricultural employment, this does not automatically imply a transition to formal employment.⁷⁹ The micro and small enterprises, constituting 90 percent of all business establishments, are the biggest employment generators. The formal sector has been subcontracting most of their production and service requirements to the informal sector as external providers in response to fierce competition in global markets.⁸⁰

To date, public social insurance schemes hardly cover the informal sector- statistics show that the majority of their members belong to the formal sector and are mostly regular employees. In 2005, 75 percent of PhilHealth's members were employees from the private and government sectors (although now improved to just 52 percent). Currently, there are 1.4 million GSIS members but these are all government workers. As of June 2007, SSS coverage amounted to roughly 27 million workers of which 79 percent were regular employees and 21 percent were individual payers. Only 10 percent of the 658,000 domestic helpers in the Philippines in 2005 were covered by SSS. For most within the informal economy, inclusion in SSS and PhilHealth has been left to individual voluntary participation and in effect both schemes are still not widely accessed for a number of reasons.

As has been discussed in previous sections, market-led programs also reach out to clients of MFIs but outreach is still mainly composed of compulsory credit life insurance and some voluntary forms of life insurance. Access to other MI products such as health is still very limited.

In market research conducted by RIMANSI in June 2002 among 527 families in areas where CARD-MBA is operating (17 cities/towns in Southern Tagalog and Bicol), 54 percent of the families were covered by insurance (39 percent have on-going insurance policies, while 15 percent have previously bought policies but stopped buying). Although the study is now somewhat dated, one can still surmise that a big portion of Filipino households are not covered by insurance or do not even have exposure to insurance. Demand for insurance as evidenced by 73 percent of the respondents who then expressed interest in the microinsurance products of CARD-MBA⁸¹.

The ILO in Manila is currently conducting a needs assessment survey in Philippines with the aim to determine the demand / preferences of the poor and near-poor in terms of microinsurance services. Although data is still being analyzed, early indications are that preferences are health, education, and pension products- this hypothesis is also supported by similar findings in Indonesia. The study is limited but still significant with 2,500 interviews across Luzon, Visayas and Mindanao.

⁷⁹ Presentation 19 Oct 2007 in Manila by Rana Hansan, Economics and Research Department, ADB

⁸⁰ Gilberto Llanto, Joselito Almario and Marinella Gilda Llanto-Gamboa (2007) „Microinsurance in the Philippines: Policy and Regulatory Issues and Challenges“, A report submitted to RIMANSI and IDRC

⁸¹ Gilberto Llanto, Joselito Almario and Marinella Gilda Gamboa, (2005): “Microinsurance: Issues, Challenges and Policy Reforms”

Other recent demand studies are not available, but indications from interviews during the pre-appraisal mission with MFIs and MI-MBAs confirm the demand for health but also for disaster insurance.

In summary, there appears to be a large gap between demand and actual coverage which represents a significant opportunity to develop microinsurance as a financial service for informal workers and for the low-income segment of the employed sector. Consolidated data on demand is difficult to find, hence a market demand study should be implemented in the very early stages of the MIP project.

3.9 International development partners

Other than GTZ, the Asian Development Bank (ADB), Cordaid, Arbeiterwohlfahrt International, ILO, and Canadian Cooperative Association (CCA), are the only development partners that have projects or activities on microinsurance in the Philippines. The CCA project is funded by Canadian International Development Agency (CIDA).

The ADB project will begin implementation next year and has three components: enabling environment, financial literacy, and capacity building of regulators and MI providers. The National Credit Council (NCC) is the executing agency while the implementing agencies are IC, CDA and National Anti-Poverty Commission (NAPC). The project will also promote life and health microinsurance products to complement its current microfinance program.

AWO International has been partnering with HealthDev Institute on at least two fronts- a water storage and sanitation project in Manila and development of a community-based health insurance (CBHI) pilot in Batanes. The pilot has now been implemented and there are plans to replicate the successes- in fact, replication seems to be already underway in Mindanao in a project with CLIMBS and MSU-IIT (see section 3.5.2). The Mission Team did not get a chance to meet with either AWO or HealthDev to get more information since it found out about this project after the mission was already underway.

CCA and Cordaid are providing financing and technical assistance to RIMANSI for the promotion of microinsurance in the country and in Southeast Asia (see section 3.6.1). This project subsidizes RIMANSI operations on a declining basis until 2010.

GTZ Health program meanwhile continues to support the KASAPI of PhilHealth but only until 2009. The plan to improve the KASAPI product and its delivery mechanism are under discussion. SMEDSEP⁸² is another GTZ supported program that promotes to improve the framework conditions for private sector development in the Philippines, especially in the Visayas. The proposed GTZ MIP project is expected to build from the KASAPI experience and from the approaches on private sector development of SMEDSEP (more discussions in section 6.3).

⁸² Small and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP) program components include: 1) harmonization of the national SME Development Plan, 2) models to improve the local and business investment climate, and 3) capacity development of the National Competitiveness Council (NCC). The 2nd phase of the program will end on August 2009, with possibility for 3rd phase extension until 2011.

The ILO has recently commissioned a social protection needs assessment survey. The result of the study will be available in early 2008, and this could be a useful reference for a demand survey that the up-coming project may implement next year. On the international front, ILO is also participating in policy discussions and conducting case studies on health insurance in cooperation with CGAP.

Finally, IFC through its PEP Philippines is focusing on downscaling and upscaling of SME finance with banks. They do not have initiative on microinsurance but the potential demand for insuring the productive assets of SMEs might be something interesting for the MIP.

3.10 Policy Framework for Microinsurance⁸³

The following section on the policy environment in the Philippines describes overall policy issues before exploring the key policy tool, the regulation and supervision of microinsurance.

3.10.1 Overall policy environment

Microinsurance role in the development agenda

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

Coordinative role of the Department of Finance

To realize the goal of microinsurance development, the National Credit Council (NCC) under the Department of Finance is working with the Insurance Commission in developing an enabling regulatory and supervisory framework for the microinsurance sector.

In the Philippines, the Department of Finance is the ministry in charge of the financial sector. It is responsible for coordinating efforts related to fiscal, financial

⁸³ Much of this section was adapted from Gilberto M. Llanto, Maria Piedad Geron and Joselito Almario (2007) “Developing Principles for the Regulation of Microinsurance: Philippine Case Study”, report submitted to RIMANSI and IDRC.

and credit policies, debt management, treasury operations, development financing and insurance. The coordinating unit in the Department is the NCC, a standing inter-agency body chaired by the Secretary of Finance with representatives from each of the key agencies (such as Bangko Sentral, Land Bank, Development Bank of the Philippines) that are responsible for implementing financial and credit policy and the private sector/ stakeholder groups for the poor. The NCC has recently taken charge of coordinating with the Insurance Commission on the development of regulations that are conducive to the growth of microinsurance.

At the operational level, in its circular 9-2006 of October 2006, the Insurance Commission has recognized that many microfinance institutions and mutual benefit associations have made insurance available to their members. The IC also recognizes the need for promoting the importance of microinsurance including defining its features, ensuring that the delivery of microinsurance services is done in a safe and sound manner⁸⁴, and ensuring value for money products and services for the poor.

Role of other Departments

The Philippine Health Insurance Corporation (PhilHealth) is the government agency tasked with implementing a National Health Insurance Program. It is under the Department of Health for policy coordination and administrative supervision. The PhilHealth has developed insurance programs for the informal sector under its Individually Paying Program, e.g., KASAPI program, and also for indigents under its Sponsored or Indigent Program.

Insurance industry reform

The Philippine government is a pro-active driver of the development of microinsurance through the coordinative work being done by the NCC and the attempts by the Insurance Commission to develop a regulatory framework conducive for microinsurance as indicated by several supportive circulars of the Commission. Appropriate regulation is a major policy tool for facilitating or enabling microinsurance. The NCC is aware of the need to revisit laws, rules and regulations that may inhibit microinsurance and to work with the Insurance Commission for rules and regulations that would enable or facilitate microinsurance. It has encouraged the collaboration between the Insurance Commission and the private organization RIMANSI to develop appropriate rules and regulations for mutual benefit associations (MBAs), resulting in a new regulatory framework for a specialised type of Microinsurance MBA (see below).

NCC leadership and the willingness of the Insurance Commission to collaborate in industry reform are critical- especially since the insurance industry appears not yet ready to address its current weaknesses and to accept the reforms proposed by the previous two Insurance Commissioners. Both Commissioners attempted to address corruption and increase capitalization but were soon replaced amid industry dissent. This apparent volatility of IC leadership does pose a risk to the development of the sector, especially microinsurance.

⁸⁴ Wiedmaier-Pfister, M., Llanto, G., Portula, D., Jowett, M., July 2007: GTZ MIP Pre-Appraisal Report

As already indicated, some types of "insurance products" such as pre-need and prepaid health plans that have guaranteed benefits do not fall under the jurisdiction and regulation of the Insurance Commission. This has resulted in regulatory uncertainty wherein entities will tend to provide "insurance" where the regulations are lax and less stringent compared to insurance entities covered by the Insurance Code. The ambiguity further created confusion and mistrust of the insurance industry as a whole.⁸⁵ To address this problem, a more defined policy and regulatory regime will have to be established to encompass all insurance products and services including their derivatives.

Policy makers have attempted to address this issue. In fact, Congress tried but failed to pass legislative bills intended to address the shortcomings of the pre-need and managed health care industry, and to put these under the regulatory oversight of the Insurance Commission.

Regulatory arbitrage

Two alternative tracks are currently allowed by the Insurance Commission for microinsurance development: Partner-agent (PA) approach and Microinsurance MBA (MI-MBA). MI-MBAs are almost completely tax-exempt⁸⁶ whereas commercial insurers are heavily taxed. This puts the PA approach at a disadvantage and furthermore is a disincentive for MI-MBAs to upgrade their license; this in effect is regulatory arbitration. For example, CARD MBA originally planned to become a full-fledged insurance company but this plan was not pursued, presumably in part due to the taxation issue.⁸⁷

The fact that MI-MBAs are income tax-exempt should be lauded but it does create a distortion of the market. There are suggestions for similar incentives to be given to insurers but only for true microinsurance products.

Promotion of financial literacy

Lack of adequate understanding among the poor of the benefits of microinsurance as a risk protection scheme has limited its demand. This lack of understanding resulted in complaints and in some cases led to the client's withdrawal from availing of microinsurance products and services.

A significant reason for low (micro) insurance coverage is lack of client information and education regarding the benefits, costs, claim and recourse settlement procedures, and requirements of microinsurance. The government has taken cognizance of this concern but overall effort on providing client information and education is inadequate. The Department of Finance, through the NCC, and the National Anti-Poverty Commission are currently undertaking a National Microfinance Literacy Training of Trainers Program that includes a specific portion

⁸⁵ The recent failure of some pre-need companies to fulfill their obligations has lowered the trust and confidence of the general population on the integrity of the insurance industry as a whole. Pre-need companies are not insurance companies but to the public they are one and the same. This has been cited as one of the major reasons why microfinance clients have been hesitant to get insurance protection and coverage from commercial insurers.

⁸⁶ MBAs are still subject to a 20 percent tax on interest earnings from investments.

⁸⁷ Wiedmaier-Pfister, M., Llanto, G., Portula, D., Jowett, M., July 2007: GTZ MIP Pre-Appraisal Report

on microinsurance. This is a component of a program loan called the Microfinance Development Program Loan funded by the ADB. This Literacy Training Program may not be sustained after the technical assistance grant from the ADB has been fully expended.

It may be worthwhile to consider the inclusion of an education component in the marketing of microinsurance products. Undergoing an information and education seminar on the details of microinsurance may be considered part of the requirement for issuing a microinsurance policy or for becoming a member of an MI-MBA. This requirement could be imposed not just on MI-MBAs but on all types of insurers who plan to issue micro-insurance policies.

3.10.2 Regulatory framework⁸⁸

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). Duly registered entities doing insurance business are required to secure a certificate of authority from the Insurance Commission either as a life or non-life insurance company, as composite insurer, or as re-insurer.

As discussed in previous sections, the IC currently recognizes four (5) types of insurers: 1) life insurance provider; 2) non-life insurance provider; 3) composite insurance provider; 4) mutual benefit associations, and 5) reinsurance companies. A life insurance provider may organize itself either as a stock corporation or a mutual life company. Mutual benefit associations and cooperative insurance societies are 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 profit 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. . .”⁸⁹

Regulations applicable to cooperative insurers

On the other hand, the Cooperative Code allows existing cooperatives to organize themselves into a cooperative insurance entity 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

⁸⁸ This section liberally draws from Gilberto M. Llanto, Maria Piedad Geron and Joselito Almario, “Developing Principles for the Regulation of Micro-insurance: Philippine Case Study, December 2007

⁸⁹ Section 390, Insurance Code of the Philippines, as amended.

health and accident coverage, fire insurance, motor vehicle coverage, bonding, crop and livestock protection and equipment insurance.⁹⁰

Compared to MBAs, 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. The requirements on capitalization, investments and reserves of insurance firms may be liberally modified by the Insurance Commission upon consultation with the Cooperative Development Authority and the cooperative sector.

Regulations applicable to all insurers

The Insurance Code and the circulars issued by the Insurance Commission generally provide the regulatory framework for microinsurance at the level of MBAs and commercial providers. Cooperative insurance societies are also covered by this regulatory framework. The circulars prescribe the prudential requirements to ensure sustainable and viable insurance operation and define statutory reserves to be maintained to ensure solvency. Minimum requirements for transparency and disclosure of information regarding insurance policy contracts are also provided in order to define the responsibility of the insurer and protect the interests and rights of the insured, especially the poor. With a view to improving delivery of insurance products and contributing to financial soundness of commercial insurance companies and MBAs, the Insurance Commission has also issued corporate governance rules and chart of accounts for commercial insurance companies and mutual benefit associations.

Corporate Governance Rules: 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. The Code of Governance is expected to enhance the corporate accountability of insurers and intermediaries, and 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 both commercial providers and MI-MBAs will be guided by good management principles in the conduct of their microinsurance operations.

⁹⁰ Cooperative Code.

Chart of Accounts: Standardization of the chart of accounts for life insurance companies (commercial providers) 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 microinsurance 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.

Regulations applicable only to MBAs

Memorandum Circular No. 9-2006 defines the regulation and policy objectives for microinsurance as follows:

- a) Defines microinsurance as “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;
- b) Provides the minimum features of a microinsurance policy;
 - i) 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 Manila⁹¹; and
 - ii) 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 (US\$ 3,883) insurance coverage).
- c) Requires microinsurance providers to clearly define in the microinsurance policies the face amount, benefits, and terms of the insurance coverage and ensure that:
 - i) The contract provisions can be easily understood by the insured;
 - ii) The documentation requirements are simple; and
 - iii) The manner and frequency of premium collections coincides with the cash-flow of, or otherwise not onerous for, the insured.
- d) Reduces the required Guaranty Fund for new and existing MBAs wholly engaged in providing microinsurance to Php 5.0 million (US\$117,647). A MBA can be recognized as a “Microinsurance MBA” if:
 - i) It only provides microinsurance policies to its members; and
 - ii) It has at least five thousand (5,000) member-clients.

To build-up their capitalization over time, Microinsurance 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 reaches twelve and a half percent (12.5%) of the required capital for domestic life insurance companies.

- e) Provides for the establishment by the Insurance Commission of a set of performance standards to monitor and assess the operations of MBAs engaged in microinsurance. The performance standards shall cover the areas of solvency and

⁹¹ This translates to Pesos 35 daily premium payments based on the current minimum wage rate of Pesos 350 (US\$8.24) for non-agricultural workers in Metro Manila. Although this amount may be quite high for the poor, setting the maximum limit of microinsurance premium payments will provide insurance providers a benchmark in designing and creating innovative insurance products that can be affordable to the poor. Furthermore, it will provide the regulator the criterion in determining what microinsurance is for purposes of licensing, regulation and supervision.

stability, efficiency, governance, understanding of the product by the client, risk management, outreach, and such other areas deemed by the Insurance Commission to be critical to the continuing viability, growth, and development of MI-MBAs.⁹²

The Insurance Commission has adopted regulatory forbearance toward informal microinsurance providers to provide them the necessary time to make a decision to either adopt a partner-agent approach or to establish a licensed MBA. Under the latter, MFIs (rural banks and NGOs) can, as an alternative to providing microinsurance themselves, organize their MFI clients into MBAs considering the more lenient capitalization requirements for an MBA. Cooperatives are also encouraged to transform themselves into formal insurance providers as a cooperative insurance society, establish a MBA or adopt the partner-agent model⁹³.

Overall assessment and outstanding issues

The ability and flexibility of the Insurance Commissioner to issue rules and regulations is a key factor to facilitate the development of the microinsurance industry. With the rule-making powers of the Insurance Commissioner, “friendly but responsible” microinsurance policies and regulations can be put in place without going through the rigorous and time consuming legislative process. This is an advantage that will benefit the microinsurance industry. This is distinctly demonstrated when the Insurance Commission issued its microinsurance 9-2006 (policy) circular. To a certain degree, the issuance of the circular can be considered as a critical step towards the development of a conducive microinsurance environment.

Nevertheless, there are still obstacles to overcome beyond the ambit of the MI-MBAs, in terms of rules which should be valid for all kind of actors (functional regulation). For example, partnerships between MFIs and commercial insurance providers have to be vigorously pursued as a major vehicle for the active participation of full-fledged insurance companies in microinsurance. However, clear-cut rules and guidelines would help to promote and enhance an efficient relationship. It should be able to:

- a) Ensure arms-length financial transactions and independency of operations to make certain that financial difficulties in one institution will not adversely affect the other and that premium payments are not used as a funding source for other financial activities by the collection agent;
- b) Put in place safeguards in situations wherein the MFI acts as the collection and insurance agent/broker to eliminate unscrupulous practices such as “ghost” policy holders, fraudulent claims and unreasonable backlogs in premium remittances;
- c) Define roles and responsibilities in the case of group microinsurance policy contracts to include the requirement for full transparency and disclosure of the terms and conditions to the individual end-client; and

⁹² The Circular did not set any timeframe for the establishment of the standards. As of end November 2007, the set of performance standards for “Microinsurance MBAs” has yet to be finalized and issued by the Insurance Commission.

⁹³ Gilberto M. Llanto, Maria Piedad Geron and Joselito Almario, Developing Principles for the Regulation of Micro-insurance: Philippine Case Study, December 2007.

- d) Ensure speedy and timely processing and payment of claims through the use of a streamlined computerized procedural systems and an effective MIS.

Market-conduct Rules (for policies, claims and transparency): In the case of individual microinsurance policies, there is a need to develop simplified procedures for applications, contracts and claims settlement. If possible and necessary, the terms and conditions of the microinsurance contracts should be written in a dialect easily understandable language by the microinsurance policy holder.

The role of agents/brokers is critical in the delivery of microinsurance products especially in the rural areas. In order to protect the interests of both microinsurance provider and policyholder, stringent regulations and measures should be developed against any unauthorized acts of the agent/broker. These may involve misrepresentations, non-remittance of premium payments and abandonment of their duties and responsibilities especially in the settlement of claims.⁹⁴

Rules for financial transactions: High transaction cost in the delivery of microinsurance products and services to the poor is a continuing concern especially for big commercial insurers and is considered a major obstacle to their participation. This may no longer be true in as much as the Government has already established the regulatory environment on the use of wireless technology for financial transactions. The Bangko Sentral ng Pilipinas has issued several circulars to ensure the safe use of this kind of technology for payment transfers and remittances. It is now successfully being widely used by MFIs, particularly rural banks, in their micro-lending operations to lessen operational costs and to lessen the burden of their clients in going to their offices to transact financial business. This system can be replicated to lessen the administrative and operational costs for microinsurance.⁹⁵

3.10.3 Oversight of MI-MBAs

This section brings forward additional relevant and consequential issues directly applicable to the supervision of MI-MBAs.

One significant issue is that IC capacity as supervisor is limited. As mentioned, regulators have been concerned with the mushrooming of informal schemes for a long time and the IC has now taken important steps towards enabling them to register as MI-MBAs. In opening the door to MI-MBAs however, the IC has created a lot of work for itself since, for example, each MI-MBA requires off-site supervision (data monitoring) and a regular (at least every two years) field examination and audit (on-site supervision).

The IC, composed of fifteen divisions, is underfunded and understaffed. It has cut costs by combining its MBA Division with the Reinsurance Division which is manned by just ten staff. With a government hiring freeze it will be impossible to

⁹⁴ Anecdotal evidences show that aside from high transaction costs, these factors have largely contributed to the failure and discontinuance of industrial life insurance policies offered by commercial insurance providers in the past.

⁹⁵ Two large commercial insurance companies are currently using wireless technology in their operations.

conduct the required field visits to each MI-MBA, especially since many more are expected to register.

The new MI-MBAs have very limited risk-management capacities and rely on organizations like RIMANSI for much needed technical support. If the IC won't monitor them as required, there is a high probability that some will run into financial difficulty and perhaps fail. Aside from the direct effect on insured members and their families, it will erode confidence across the MI industry and in the MI-MBA approach itself. This would be very unfortunate and the effects would spill beyond the Philippines which is pioneering the MI-MBA model. Other countries are eyeing this model, and in a recent international microinsurance forum in Mumbai the International Association of Insurance Supervisors (IAIS) recommended that regulators take a closer look at this type of model.

Rationalizing and implementing Risk-Based Capital (RBC)

With the introduction of Insurance Memorandum Circular 11-2006 titled "Adoption of Risk-Based Capital Framework for the Philippine Mutual Benefit Associations", there is now some confusion with regards to the capital requirements of MI-MBAs. On the one hand, IMC No. 9-2006 clearly spells out the Guarantee Fund requirements but following that another circular on RBC was issued it is not entirely clear to the current IC team how these two directives are to be reconciled. As well, the new RBC Circular still needs some refinement and lacks implementation guidelines.

3.10.4 Conclusions on the policy framework for microinsurance

In summary, there have been some remarkable achievements in microinsurance policy framework including regulatory and supervisory approaches in the past two years. Almost 800,000 microinsurance families (a number still rapidly growing) have entrusted their funds to MI-MBAs. Both the Philippine market and the international community are watching the MI-MBA development with keen interest. Nevertheless, while microinsurance is clearly a priority area of the government, and innovative steps have been undertaken, much remains to be done. Hence, it is an opportune and critical time for donors to intervene at various levels and invest in sustaining the recent gains with more capacity building, systems and tools development.

3.11 Suggested intervention areas

Specifically, the suggested priority areas for this project to address include the following:

- a) Capacity of insurance commission in regulation and supervision (in close coordination with ADB as its project is also working on MI-MBA regulation);
- b) Development of self-regulation for MI-MBAs;
- c) Effective financial consumer literacy work; and
- d) Development of effective microinsurance products, especially health microinsurance.

4. Institutional analysis of recommended partners

This section mentions some of the potential partner institutions and the reasons for their recommendation. Their role as microinsurance actors has already been described above; here the business plans, capacities, resources and relevance to the project are explored. In addition, lead executing agency and several potential implementing organizations are proposed.

National Credit Council (NCC)

The National Credit Council was created by former President Fidel Ramos through Administrative Order NCC to rationalize government's credit programs and coordinate the formulation of government credit and financial policies and measures, including those for microfinance. Its inter-agency structure has given it the advantage of acting as a critical forum for discussing credit and financial policy reform issues as well as for generating consensus on the credit and financial policy reform agenda.

Since its establishment in 1993, the NCC has worked with the Bangko Sentral, Congress and the Office of the President on all laws and regulations relating to credit and financial policy. It has been responsible for the continuity of credit and financial policy reforms, the coordination of government's credit programs and the implementation of the National Strategy for Microfinance, which has as an important element, the development of microinsurance for poor households and microenterprises. Furthermore, through its efforts as well as those of other stakeholders, the government issued the National Strategy for Microfinance and Executive Order No. 138; Congress passed the Agriculture and Fisheries Modernization Law and the Social Reform and Poverty Alleviation Act, General Banking Act of 2000 (with reference to the provisions on microfinance only) and the Bangko Sentral issued circulars favorable to microfinance development.

The NCC is currently serviced by a Secretariat comprised of nine part-time technical personnel of the Department of Finance with Undersecretary Gil Beltran as the Executive Director. Deputy Executive Director is Mr. Joselito Almario, Jr. It had a slim budget of about Php 170,000 (US\$4,000) in 2005, which was maintained to the present mainly to cover the per diem and transportation allowance of the NCC staff for out-of-town workshops and activities. The Secretariat personnel are permanent employees of the Department of Finance from which they draw their salaries.

The part-time character of the NCC Secretariat is its major weakness. However, a proposal under the DOF's rationalization plan is to transfer the mandate and functions of NCC to a department within DOF proper. This department will be the Domestic Financial Markets Development Office. Credit and financial policy formulation belongs to the mandate of DOF and having full-time personnel focusing on this function will better preserve continuity and coordination of such policies.

Notwithstanding this structural weakness, the NCC Secretariat has ably discharged its responsibilities as executing agency for USAID's Credit Policy Improvement Project, which was implemented from 1997-2006. The NCC Secretariat is currently the executing agency of the technical assistance component of the Microfinance

Development Program Loan funded by the Asian Development Bank. The technical assistance focuses on financial literacy of microfinance clients and capacity building of the Cooperative Development Authority, the regulator of cooperatives. This TA has a minor microinsurance component.

Due to its unique position and its track record, **National Credit Council/Department of Finance is recommended as the executing agency partner** in coordination with DOH for PhilHealth concerns.

The IC, DOH, and other regulators are recommended as **implementing partners**, however, the roles for each will become more clear when specifics are laid out in the implementation phase. As partners they should be represented in a steering committee that will be created to oversee project implementation, with the NCC as chair. As earlier stated, the NCC is an inter-agency body mainly responsible for overall coordination of credit and financial policies.

RIMANSI

RIMANSI is also recommended as one of the meso-level implementing partners. As described earlier, RIMANSI provides technical support to MI-MBAs. For setting up a new MBA in Philippines it collects a modest fee and also recovers direct out-of-pocket expenses. For the pilots that it set up in Cambodia it charged a bit more but the amount still did not offset the full implementation cost. Other sources of revenues include special projects such as the recently completed policy research with IRDC and the annual fees from its member MBAs.

Operational expense shortfalls are currently subsidized by the CCA/Cordaid projects on a declining basis. Its business plan is to become self-sufficient by project end in 2010, and this will be accomplished in part by developing additional services mentioned earlier, for which it will charge fees and develop new revenue streams.

Being a relatively new organization, RIMANSI's human resources are barely enough to service its clientele. Initially, RIMANSI relied on outside consultants and CARD-MBA staff but has gradually built up its in-house capacity. Actuarial services however are still sourced fully from Asian Actuaries.

To partner with RIMANSI makes good sense since the proposed new capacities to be built under this project will be in line with its organizational development plans and to reach self-sufficiency. Since it is not-for-profit, it will use its new capacities to strengthen the microinsurance industry. It is the major service provider for microinsurance.

MIAPh

A second implementing partner is MIAPh. The organization is even newer than RIMANSI and as described earlier, it provides administration services to MFIs within the APPEND network. Although it is for-profit, it is owned by an international nonprofit organization.

MIAPh relies on grants, commissions, and service fees for revenue. It is not known whether the organization is already self-sufficient, but it seems to have a strong

enough parent which will likely back it up until it reaches self-sufficiency. As of 2007 year end, it had 29 employees in Philippines and is projecting that its business and staffing will double in 2008. As well, the parent company MIA will receive a large microinsurance project grant from Bill and Melinda Gates Foundation. Synergies may arise in terms of the interventions under this grant and the proposed project.

Health Dev Institute

HealthDev was discussed in section 3.7.2. Aside from what was discussed in that section, not much is known about its structure or capabilities- but it has been around since 1990 and has successfully partnered with AWO International on at least two projects. As will become clearer below, it makes sense to explore a partnership with HealthDev (and possibly collaboration with AWO) for a health microinsurance pilot.

Other

Finally, participating MBAs, MFIs, and insurers should be selected during the inception phase based on eligibility criteria to be developed. Since the proposed focus is on Visayas and Mindanao, within which CARAGA might be an initial area of intervention, it would make sense to pick an MBA from within each of these regions- in CARAGA there are currently none, therefore RBT-MBA in nearby Misamis Oriental could be considered, provided that it plans to expand its outreach to CARAGA. Similarly, CLIMBS in Cagayan de Oro should also be considered since they already partner with several cooperatives and rural banks in CARAGA.

Proposing these partners is not a suggestion for direct funding. GTZ should collaborate on a project basis, for specific activities, and should seek co-funding of such activities. Lastly, GTZ should collaborate with several service providers so as to achieve a balance in strengthening of the overall market for MI service provision.

5. Results and Objectives

Target group of project interventions

The proposed project has two main direct target groups:

- a) One group is the poor households who are also the present and potential microfinance clients of NGOs and rural banks and/or are members of cooperatives. Those households being specifically targeted by microfinance programs are usually the so-called enterprising poor since they own and operate micro-enterprises, including their family members. Most are part of the informal economy although this is not always the case. The lower-income employed sector is also represented since many of these households are members of employee cooperatives, or are employed directly by cooperatives and micro, small, and medium enterprises (MSMEs). In short, the target group currently includes the majority of microinsurance customers since MFIs and cooperatives are the main distribution channels.
- b) The second direct target group is the MSMEs currently being targeted by the SMEDSEP project. Records of the National Statistics Office in 2004 showed that

99.6 percent of all Philippine enterprises (amounting to a staggering 781,047) are considered MSMEs. Of this figure, 91.1 percent are micro-enterprises, 8.2 percent small and 0.4 percent medium-sized enterprises (see Table 5a for definition). While MSMEs employ 69.1 percent of the Philippine labor force, their value-added contribution to the economy is only 32 percent.

Table 5a: MSME Definition (per RA 8289)

Category	Asset Size	# Workers
Micro	Less than Php 3 Million (m)	1 – 9
Small	Above Php 3 m but not more than Php 15m	10 - 99
Medium	Above Php 15m but not more than Php 100m	100 - 199

Indirect target groups include the staff of institutional partners such as IC, DOH, RIMANSI, and others who will benefit from their enhanced skills and knowledge gained from targeted capacity building.

The project will address major policy and industry level issues and as such the results from these interventions will affect microinsurance beneficiaries throughout the country at various levels (directly and indirectly).

Objectives and expected impact

The project should have two main components, each with several subcomponents. The first component should be concerned with improving the microinsurance policy environment while the second should focus on microinsurance innovations such as new product development. The specific problem statement and rationale for each subcomponent, the activities and methodology, and the outputs are presented in section 6.

The following major project objectives are proposed:

- a) **Wider outreach of sustainable microinsurance services** to poor households and MSMEs including in conflict areas.
- b) **Improved microinsurance services** with access to health microinsurance and at least one other new product to be developed. Although demand for each new product will be confirmed through market research before its development, current candidates include weather-indexed crop insurance, non-life products to insure productive assets of households and MSMEs, and micro-pensions.

At the impact level, the following results are expected:

- a) Poor households have greater stability and economic security vis-a-vis risks that affect them.
- b) MSMEs are better insured against risks which threaten their competitiveness and existence.

Impact chain

The main features of the project's impact chain are as follows:

Project support will help to build the capacities of the NCC and the IC at policy level, the association RIMANSI and other meso level service providers through measures such as staff training, information sharing, training of trainers, system and tools development, literacy work, linkage of various stakeholders, research studies, and pilot projects. These measures will be used by the staff of these institutions to improve their services and tools, and the enabling environment including policies and the regulation and supervision of microinsurance.

The NCC/DOF, other authorities and Insurance Commission will abolish regulatory barriers which will improve competition and transparency, and lower the risk for individual clients and the insurance system.

Based on these interventions, the implementing partners at meso level will be in a position to work more effectively, sustainably and become more customer-oriented towards their clients, the insurers and intermediaries.

To sum up, the interventions at meso and macro levels will lead to improved and more effective services at the micro level (insurance providers and intermediaries) as they make use of the guidance, information, tools and systems and training provided by the upper levels.

The services of insurers and intermediaries in turn will benefit low-income households and MSMEs which can buy quality insurance products covering their major risks at reasonable cost. By doing this, they are better protected against economic and social shocks and life-cycle events. This in turn will help them to continuously invest in their businesses, maintain their health, invest in their children's education, and protect their meager assets. Special focus will be given to conflict prone areas to ensure that products and servicing will address the special needs in these areas.

Indicators and targets

The indicators to be used for monitoring progress towards realizing project objectives should include the following:

Indicating outreach-

- Number of poor households and MSMEs covered nationwide and in targeted regions with formalized life, health insurance, and other insurance services.
- Better insurance penetration; the specific indicator used is known as coverage ratio (participation ratio) defined as number of insured divided by the target market (i.e. potential number of insured). This indicator should be measured locally for targeted areas and groups as well as globally.
- Number of formalized microinsurers.
- Number of microinsurance programs that are either partnering with regulated insurers (partner-agent) or are MI-MBAs in full compliance of regulatory requirements for ensuring financial strength, which may include one or more of the following: i) Initial Guarantee Fund level and buildup to ultimate level; ii) Level of solvency ratio defined by IC as liabilities / assets; and iii) Risk-based capital requirements. The IC still has to reconcile how the three measures are to be used, given the new directives issued by the previous Commissioner.

Indicating sustainability-

- Number of microinsurance programs calculating reserve requirements using actuarially accepted methods and with reserves fully funded.
- Number of programs with a positive net income within the “socially acceptable” range of five to ten percent of earned premiums. This level of net income is a fair return on invested capital by insurers and is sufficient to build up surplus for member-owned programs. Consistently higher net income indicates a need to increase benefits (for the same premium rate) or lower the premium rates to improve financial access.
- Number of MI-MBAs with custom-designed reinsurance and catastrophic coverage.

Indicating better protection/value for money insurance products-

- Number of households expressing satisfaction with the insurance coverage and servicing (determined through readily accessible and regular feed back mechanisms).

There are numerous other indicators that could be added to measure improved access and more relevant coverage- however monitoring too many indicators will result in excessive work with only marginal new information.

Target values for each indicator should be set very early in the implementation phase. This is best achieved with stakeholder participation in a facilitated planning exercise in order to achieve commitment and buy-in.

Monitoring and evaluation (M+E)

Monitoring, evaluation and reporting on the progress and achievement of milestones should be conducted regularly according to the respective guidelines of GTZ.

The following should be considered (to be finalized with Stakeholders during the inception phase):

- Annual reviews of strategies, indicator targets, and lessons learned;
- Annual and quarterly work plans, progress reports, anticipated budgets, actual-to-expected results and spending analyses; and
- Midterm as well as a final project evaluation.

Indicators will be evaluated in each reporting period using the most current data available from the various partners.

Although monitoring and evaluation should be regular and thorough, it must be flexible and needs-based. Furthermore, project strategies should be modified if necessary in order to incorporate the lessons learned and / or to accommodate environmental flux and new developments.

Project monitoring and evaluation should be results-based and permanently used as a project management instrument, which will help partners and project team to implement the defined objectives and results and to adjust and improve the services of the project continuously.

It will also help to communicate effectively among all stakeholders involved in the project based on questions such as: a) Are we on track and what has been achieved so far? and b) Is this the right direction or which corrections might be necessary?

M+E can also be used as an instrument of organizational development, and for coaching to build the capacity of local partners and ensure the sustainability of project results.

Coordination with the Technical Working Group on Microinsurance is a must.

Development-policy status

The project is directly linked to The Philippines National Strategies of achieving social security for the informal sector, as well as on the National Microfinance Strategy. Microinsurance is not explicitly included in the National Microfinance Strategy of 2005. But as microfinance was declared as Central Banks Flagship Program for Poverty Alleviation in 2000 in general, the strategy provides valuable lessons and objectives deriving from the promotion of microcredit and micro-savings which are equally valid for microinsurance.

The proposed project contributes to achieving the Millennium Development Goals (MDG) as well as the Goals of the Poverty Action Program 2015, especially to MDG 1 (Reduction of poverty and hunger), MDG 2 (improved access to education, MDG 3 (gender aspects), and to those MDGs related to health issues.

The project responds to the BMZ's priorities as defined in the new country strategy (Draft February 2006) which calls for socially balanced and sustainable economic development.

MIP should build on and continue to use results of the Small and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP, PN 2006.2036.9), which has the objective to improve the framework conditions for enterprises. As well, it should build on the "German Support to Health Sector Reform and Population Management Program in the Philippines" project (PN 2004.2047.1), as the GTZ Health Program which supports the Philippines Health Sector Reform Program with policy advice, capacity building and the development of locally-based health services including the KASAPI program.

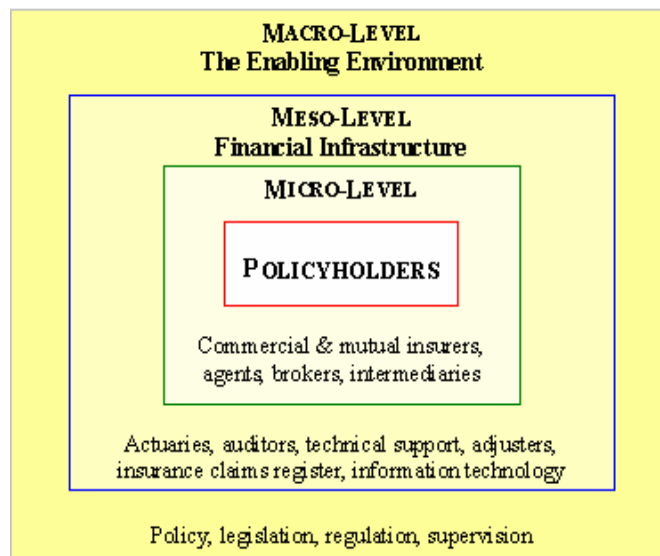
6. Recommended Concept for the Proposed Project

The recommended project aims at supporting all three levels of the financial system thereby working systemically and with a holistic approach. At the level of the policy framework (macro), i.e. policies, rule setting and supervision, the project should contribute to the national and international dialogue, and the improvement of policy tools for insurance market development including regulation, supervision and financial literacy in terms of the poor's access to insurance.

At the level of the support infrastructure (meso), various organizations shall be capacitated to train and coach their members or clients, create more transparency,

collect data and research, reinsure effectively, develop products etc. The project interventions should aim at helping these service providers to work sustainably and effectively.

At the level of microinsurers and intermediaries (micro), demand-oriented products and services as well as effective inter-institutional linkages should be promoted. Promotion at this level should, as far as possible – be carried out by meso-level actors, and not directly by the project. The term microinsurer refers here to specialized insurers such as the MI-MBAs, but also to commercial insurers or intermediaries with a microinsurance window.



Source: IAIS-CGAP Issues Paper (June 2007)

Support of the micro level including the promotion of partnerships with national and international private actors should be strengthened (public-private-partnerships among GTZ and a private company or mutual). This also includes state-owned entities as far as they offer programs such as KASAPI which is based on insurance principles and not on transfer payments (subsidies).

Finally, at the level of clients, which are in the centre of the

approach as seen in the Chart, the project should support demand and impact studies and collect other relevant data. As above mentioned, consumer protection measures should be strengthened in cooperation with the various players at the other levels of the financial system which is a very important field for sustainable insurance market development.

In any case, the project should promote linkages between the various actors at these levels and at the global level (e.g. IAIS, www-financialeducationsummit.org). This also includes cooperating with and mobilizing funds for the project’s ongoing or new activities from various other development agencies.

With this systemic approach to supporting the financial/insurance system the problems of the sector in various areas should be dealt with.

The project shall contribute to developing an efficient and transparent insurance market with financially educated consumers from the low-income segment who are enabled to take informed decision.

The project should work based on GTZ’s principles in cooperation⁹⁶ such as:

⁹⁶ See Capacity Development für nachhaltige Entwicklung, Eine Kernaufgabe der Deutschen Gesellschaft für Technische Zusammenarbeit (March 2003)

- systemic approach; i.e. working at the level of the policy environment, the support infrastructure, the retail level and the client level simultaneously to achieve highest impact and avoid that weaknesses in one area are counterproductive for work at the other levels;
- long-term orientation and flexibility, i.e. project planning is not short-sighted by looking at quick wins but has a long-term orientation of sustainability, which includes flexibly reacting on changes in the environment;
- good project design and partner orientation, i.e. base the project concept on a sound diagnosis, and the process is based on clear participation and ownership of the local partners; while making use of local capacities and intervening only where local structures fall short;
- impact orientation, i.e. activities are chosen with highest impact meaning they induce real long-term changes and are therefore sustainable; impact is continuously monitored and fed-back into project implementation.

Based on the above described systemic approach and principles, the proposed project concept can be summarized as follows:

The following chart provides an overview on components, sub-components and main activities, which will be expounded below:

Components	Sub-components	Main activities	Partners
1. Enabling environment	1.1 - MBA self-regulation	Capacitate Self-regulatory Organization (SRO) and RIMANSI to conduct supervisory functions of MI-MBAs. Develop prudential indicators and benchmarks to measure performance.	IC, SRO, RIMANSI Indirect partners: MI-MBAs, NCC
	1.2 Risk-Based Capital (RBC) implementation for MI-MBAs	Capacitate IC, SRO, and RIMANSI to implement RBC- this will be integrated with self-regulation.	
	1.3 Financial literacy policy development	Develop a multi-stakeholder initiative in financial literacy which will include other actors at the policy level. This could include dialogue and workshops with policymakers and donors on efficient strategies to develop financial literacy effectively.	
2. Market-based MI innovations	2.1 Health microinsurance innovations	Develop two pilot health microinsurance programs which will be integrated with PhilHealth- one using a P-A approach and a second in partnership with an MI-MBA. In the latter stages of the project, when the models have been fine-tuned, replicate to other microinsurers.	PhilHealth, RIMANSI, MIAPh, insurer such as CLIMBS, MI-MBA such as RBT-MBA, MFIs/coop, service providers. Indirect partners: NCC
	2.2 Financial literacy strategy development for microinsurers	1) Field study to determine the main aversions towards insurance services at client level. 2) Determine a set of interventions which are expected to be most effective based on evidence of Philippine or other countries (e.g. South Africa) 3) Financial literacy hand-book for microinsurers	IC, NCC, RIMANSI, MIAPh, research consulting firm, participating microinsurers
	2.3 Research and new product development	Develop and test new products, based on feedback from the MI market.	MIAPh, RIMANSI, microinsurers. Indirect partners: NCC

6.1 Component 1: Enabling environment

Subcomponent 1.1: MBA self-regulation

Section 3.10.3 describes the problem of an IC with limited capacity and funding having to regulate a proliferation of MI-MBAs. In summary, the regulator has responded by creating a conducive and enabling environment but in doing so it is now challenged by resource limitations to adequately supervise a proliferation of MI-MBAs. Without adequate oversight and due to their limited management capacities, there is a high probability that some MI-MBAs will fail, and this would instill doubt in both domestic and international stakeholders that this model is sustainable, sending very bad signals for market development of microinsurance. Furthermore, without self-regulation the IC is likely to curb MI-MBA registration and hence create a bottleneck hindering development of the MI sector.

The IC has proposed a novel solution to this problem by following the self-regulation route similar to that taken by the microfinance industry.

Box 6.1a: Brief History of Microfinance Self-Regulation

The government took the initiative of asking the USAID for technical assistance at two levels: (a) credit policy project, which took care of the general policy and regulatory environment for microfinance and (b) developing performance standards for microfinance institutions. The first project issued the National Strategy for Microfinance which provided a blueprint for reforms in credit and financial policies, especially those affecting micro-credits and agricultural credits. The general thrust was to create a market-based credit policy environment. The government was able to achieve this, hence the rise of microfinance institutions.

There was a realization that the termination of government subsidized credit programs could create a credit vacuum (at least for those rural based borrowers who were quite dependent on government credit subsidies) and therefore, triggered a clamor for the revival of those credit programs. The country could ill afford to have thousands of small, financially weak microfinance institutions (MFIs) that could collapse because of loan defaults and delinquencies. Hence, the need for the second project, which was started as a project to develop performance standards for microfinance institutions (rural banks, cooperatives and NGOs). The project was called the Coalition for Microfinance Standards. Towards the end of the project, the participants and other stakeholders in the development of those standards later decided to establish a non-profit, non-stock corporation called the Microfinance Council of the Philippines, Inc. (MCPI), which has since then served as a forum for microfinance issues, technical assistance provider to MFIs and advocate for microfinance policy reforms. In effect, MCPI may also be regarded as a functioning Self-Regulating Organization (SRO) since member MFIs agreed to maintain good performance as measured by a common set of performance standards and to regularly report their financial condition. The information is accessible to the general public.

To follow a similar track of self-regulation, microinsurance performance standards are needed. Towards this end, a set of performance indicators must be developed which can be a basis to measure and evaluate critical performance areas in the MI-MBAs (and microinsurance programs in general) such as financial solvency, reserve adequacy, service standards, product relevance, and others. The previous Commissioner had already begun work on indicators with RIMANSI.

Since microinsurance is a much more complex business and involves mobilization of funds from the public other than lending, the self-regulation approach will be more rigorous than for microfinance. Every year, each MI-MBA will undergo an examination by the SRO which will include a full audit as well as diagnosis and testing for capital adequacy and appropriate reinsurance. This diagnosis will use modeling techniques which will project the performance indicators, enabling the examiner to rapidly detect emerging problems and weak areas as its examination are facilitated by standardized and well-documented/easily accessible data (similar techniques are used in developed insurance markets).

However, self-regulation should not be understood as doing away with prudential supervision by the IC; it is rather to be seen as complementary and facilitating the supervisor's work.

Finally, standardized transparency can contribute to creating an international database on microinsurance (to be established, database like the MIX Market for MFIs) where global and national data is available for funders, promoters and industry participants.

Main activities for the self-regulation component:

- Stakeholders Workshop to develop a common ground for the self-regulatory framework
- Building a task-force and hiring of consultant to develop the model
- Registering and setting up the SRO (systems, staffing, etc.)
- Development of performance indicators and benchmarks
- Development of data repository:
 - Design relational database
 - Programming of the interface and data management system
 - Design and programming of data migration tools from MI-MBA systems
- Development of tools, taking off from RIMANSI's initial work
- Development of protocols for auditing and diagnosis of MI-MBAs
- Development of a website for information dissemination

Main outputs for the self-regulation component:

- Registered and functional SRO (has to be industry-driven with the MIP project sponsoring and facilitating)
- Framework for self-regulation
- IC Circular enabling self-regulation
- Performance indicators developed and approved by stakeholders
- Performance benchmarks, initial set and then refined from time to time
- Data repository for research and ongoing refinement of benchmarks
- Diagnostic tools to project performance and identify emerging problems
- Audit and reporting systems and procedure manuals
- Reporting templates, complete with instructions (for SRO, MI-MBAs, IC)
- Information on performance available to the general public thru its web site and other means of information dissemination.

Subcomponent 1.2: Risk-Based Capital (RBC) implementation for MI-MBAs

As mentioned in Section 3.9.2, the IC has issued a memorandum circular on the imposition of a risk-based capital (RBC) framework for MBAs but has yet to issue the implementing rules and regulations (IRR). While that memorandum circular provides in broad terms an approach to supervise MBAs, the IC has to understand how to implement risk-based supervision, develop procedures for consistent application by their examiners and above all, to train their technical staff. IC has expressed the need for technical assistance in this regard.

In the case of MI-MBAs, RBC implementation, if it is still applicable once it has been reconciled with the earlier Insurance Memorandum Circular (IMC) No. 9-2006, will be implemented jointly with the proposed SRO and the IC.

Main activities of the RBC implementation component:

- Stakeholders Workshop on RBC implementation
- Development of tools, protocols, reports
- Implementation and refinement

Main outputs of the RBC implementation component:

- RBC implementing rules and regulations (IRR)
- Procedures manual and tool to determine the current and prospective capital requirements based on the RBC framework. This will be used by the MI-MBAs for reporting and management purposes and by the SRO as part of the audit and diagnosis.

Main implementing partners for both sub-components: IC, SRO, RIMANSI

Indirect partners: MI-MBAs, NCC

Subcomponent 1.3: Financial literacy policy development

One of the key findings of the Appraisal Mission Team was that awareness and financial literacy levels are still regarded by suppliers and distributors as one of the principal determinants of microinsurance uptake in the country. Awareness levels, however, appear to be increasing, especially where MFIs with microinsurance programs have been operating for some time. This seems consistent with the conclusion reached in RIMANSI's survey which indicated that in some areas households are shopping around for the MFI with the most attractive microinsurance program.

Increased awareness level is a positive development, but much more needs to be understood and done. Insurance penetration levels remain low for groups with voluntary participation. In groups where participation is compulsory, coverage is often inadequate due to unwillingness to pay. Although willingness to pay is a function of disposable income, it is also determined by buyer's attitude which in turn is affected by such factors as culture and past experiences. Attitudes must be well understood in order to develop effective marketing messages which counter aversion to insurance. Other problems exist, such as consumer exploitation due to limited understanding and literacy.

The project should support NCC and IC in developing a multi-stakeholder initiative in financial literacy which would include other actors at the policy level. This could include a series of dialogues and workshops with policymakers, donors, and private

stakeholders on efficient strategies to develop financial literacy effectively. As well, the aim should be to coordinate with local and international activities in terms of financial literacy to learn – and help the partners and other donors to learn – from international practices in financial literacy as implemented by the aforementioned ADB project, ILO-Gates Project on Microinsurance, Opportunity International and Freedom from Hunger, and other global activities promoted by insurance supervisors or sponsors such as Citi FT Financial Education Summit 2007 (December in Delhi).

6.2 Component 2: Market-based MI innovations

The RIMANSI Microinsurance Supply and Policy Environment Survey and the MIP Appraisal Mission revealed that microinsurance is growing rapidly in terms of outreach however the majority of products offered are variations of credit life and term life. As pointed out in section 3.8, while there has been no extensive demand study aside from the limited survey currently being undertaken by ILO, there are many indications that other products aside from life are in great demand by poor households. High among the list are health, education, and pension products. On the other hand, as was described on several occasions in Section 3, the potential suppliers of these additional products are not offering MI versions to poor households or have not yet fully adapted their current offerings to the microinsurance market. The proposed MIP project aims to address this gap as will be described below for subcomponents 2.1 and 2.3.

A second theme that emerged from a number of discussions with the various MI actors is the great need for consumer education. Subcomponent 2.2 aims to address this need as described below.

These three sub-components contain several cross-cutting themes: Capacity building of intermediaries, promoting linkages, and information exchange within the industry and with initiatives or partners in other countries.

Subcomponent 2.1: Health microinsurance Innovations

Management of PhilHealth KASAPI program has recognized that a uniform product and standardized implementation approach has not worked well in pursuing the objectives of penetrating the informal sector through organized groups such as MFIs. Although there are now initiatives to customize the product and relax implementation conditions, it is not likely that these measures will be sufficient to satisfy all groups and lead to the desired outcomes of the program.

The project should initially pursue two pilot health insurance projects (to be replicated later)- one of these will be developed in partnership with an MFI - MBA and a second with an MFI-insurer combination. Both pilots will aim to address the main obstacles that hinder the KASAPI program through the following innovations:

- 1) Product relevance- the product will be designed with direct input from the prospective insured clients / members of the program. Integration with PhilHealth will be a priority with the necessary complementation. Complimentary features will be insured by the partner MBA or insurer.

- 2) MIS and database management- the MFI-MBA and MFI-Insurer partner will manage the databases to keep these more current. Data will be uploaded to PhilHealth on a periodic basis.
- 3) Member ID cards will be issued locally to ensure instant coverage.
- 4) Product will be priced based on local disease prevalence and package design.
- 5) Premium financing- Premium collection will be integrated with the loan repayments of borrowers. Some of this premium will be forwarded to PhilHealth and some to the insurer / MBA. The MFI will retain a fair and adequate administration fee.
- 6) Local claims settlement- All claims will be settled locally by the partners, who will then recover the PhilHealth portion. This is to control fraud and ensure timely payment to providers, which is expected to encourage their participation and at preferred rates.
- 7) Control of over-utilization- Local clinics will be set up for initial diagnosis. This is to discourage over-utilization and appropriate treatment. Outpatient services can be provided through the clinics.
- 8) To ensure adequate participation, it will be compulsory. In order to achieve this, costs must be kept very low. Cebu CFI has been able to implement compulsory implementation for ten years now and yet it appears that its 28,000 members are very satisfied.
- 9) The program will find a source of generic and less expensive drugs.
- 10) In absence of service providers the partners may use a mobile clinic to reach members without easy access.

All of these are intended to reduce cost, improve service, and adapt to local conditions. Nevertheless this can only succeed with a commitment to hard work and excellent standards, experience-based refinement, persistent consumer education and innovative management. Integration with PhilHealth will only be possible if its Management will be open to local customization including pricing.

By the second or third year it will be possible to begin replication of the pilots to other MFIs / cooperatives.

Main outputs (at various stages of each pilot):

- Partnerships – PhilHealth, MFI, MBA/Insurer, Intermediary
- Market research
- Health microinsurance products
- Business plans
- Operations and systems
- Enrolled members
- Documentation

Main activity areas (at various stages of each pilot):

- Identify partners and facilitate the agreements
- Conduct market research to determine capacity to pay and product preferences
- Develop product, pricing, business plan
- Design systems and operations procedures
- Staffing
- Negotiate with service providers
- Set up clinic(s)
- Implementation and training

- Member mobilization and phased rollout
- Refinement and improvement through continuous monitoring
- Replication to other MFIs (latter stages of the project)

Main implementing partners: PhilHealth, RIMANSI, MIA, insurer such as CLIMBS, MI-MBA such as RBT-MBA, MFIs/coop, service providers

Indirect partners: NCC

Subcomponent 2.2: Financial literacy strategy development

It is recommended that this project subcomponent develop a comprehensive **handbook on strategies for promoting microinsurance awareness and financial literacy**. The guide should be based on a thorough review of the current industry stakeholder initiatives, on the results of existing studies, campaigns, and on the results of an extensive field study. The aim of the handbook would be to assist microinsurers in developing effective marketing materials and messages for promoting their services.

Although the field study should span the entire country there will be special focus on Visayas and the CARAGA region. Random samples of poor households should be interviewed to establish overall understanding of prevalent attitudes and aversions to microinsurance and to identify the nuances of targeted areas. The survey sample should be drawn from both the clientele / memberships of partnering microinsurers and from the larger market.

The field study can build the research capacity of participating institutions since it will be mainly executed by their own field staff. A local research firm should be contracted to design and lead the study. Each of the survey teams should be trained and guided by a team leader from the consulting firm.

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Box 6.2a: Possible research questions in the survey
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- What is the basic level of understanding of risk pooling concepts by poor households?
- What types of informal risk pooling schemes do households accept and regularly participate in?
- What is their awareness of life, health, and other insurance products?
- What are the risk management strategies of poor households in the absence of insurance?
- For those with insurance, how has insurance affected the risk management behavior, and what economic impact has it had on the household?
- What are the premiums paid, products bought, risks covered, premium financing methods, provider and insurer satisfaction levels, distribution channels accessed, etc.?
- For those without insurance, what are the reasons for not having insurance and / or apprehensions towards formalized risk pooling?
- What are the usual experiences that have shaped current apprehensions?
- What are the typical product misfits, service inadequacies, barriers to access, and other issues that have shaped the current attitudes towards insurance?

The consultants should prepare an extensive analytical report of the findings that will recommend strategies for bridging the awareness gaps brought to light and / or reconfirmed by the study. Following the field study, the research consultants should be further tasked to lead a workshop with an aim to a) Reinforce and convey the methodologies used to conduct the survey as a further capacity building activity; b) Present the findings of the field study report, the analysis, lessons learned, and suggested strategies for improving awareness and financial literacy; c) Present the summary results of the desktop analysis and review of current stakeholder initiatives; d) Solicit reactions and suggestions from participants regarding the presentations and on the financial literacy strategic plan to be developed; e) Solicit further inputs towards validation of the results; and f) Receive input with regards to the communication strategies to be developed by the industry.

The consultant should take the lead in developing the communications handbook. The purpose of the handbook is to assist microinsurance stakeholders with designing and marketing microinsurance services, promoting financial literacy, and addressing the apprehensions and concerns of households. The guide will also include sections on conducting effective market research and designing continuous feedback mechanisms.

Main outputs

- Desktop survey and analysis
- Research design and survey questionnaires
- Research findings report
- Workshop and related report
- Handbook on communications and financial literacy strategies
- Develop some communication materials
- Can be complemented with training of MI-MBA staff for developing and implementing such materials and activities.

Main implementing partners: RIMANSI, MIAPh, research consulting firm, participating microinsurers

Indirect partners: NCC

Subcomponent 2.3: Research and Development: New product development

In meetings with the various stakeholders during the mission, there was much discussion about the need to develop new products such as health, crop, non-life to cover productive assets, and so on. The project should aim to develop at least two

new products aside from the health pilots, and it should be done jointly with MIAPh and / or RIMANSI. As well, the MI-MBAs have expressed an urgent need to develop catastrophe reinsurance.

The activities and outputs have to remain generic since the products and partners have yet to be confirmed / identified. Similar to the health pilots, the product should be developed, tested, refined, and then replicated.

Main outputs (at various stages of each pilot):

- Partnerships – MFI-MBA, MFI-Insurer, Intermediary
- Market research for the pilot
- Pilot products developed
- Business plans
- Operations and systems
- Enrolled clients / members
- Documentation of experience
- Refined product

Main activity areas (at various stages of each pilot):

- Identify partners and facilitate the agreements
- Conduct market research to determine capacity to pay and product preferences
- Develop product, pricing, business plan
- Design systems and operations procedures
- Additional staffing if necessary
- Implementation and training
- Member mobilization and phased rollout
- Refinement and improvement through continuous monitoring
- Replication to other MFIs and coops

Main implementing partners (like above):

Capacity Building as a cross-cutting issue: The previous components contain capacity building elements of the proposed SRO and various regulators especially the IC. Although not explicitly mentioned, the implementers such as MIAPh and RIMANSI will also require capacity development since they will be the implementing partners of the various subcomponents. As such, capacity building is a major cross-cutting theme. The project will develop and promote various capacity building strategies for the different partners, including coaching of pilot microinsurers, and capacity building of partners in international and local measures.

6.3 Co-operation with other projects

GTZ can link the requirements of MIP project for technical experts to DED (German Development Service), a sister organization of GTZ. DED's core competence is on fielding full time expert advisers to a host organization. The duration of the assignment is normally for 2 years. In the Philippines, DED works closely with the Philippine National Volunteer Service Coordinating Agency (PNVSCA) of the NEDA. The same approach may be implemented by CIM (Center for International Migration), a subsidiary of GTZ.

A close interface with GTZ SMEDSEP is particularly rooted in its experiences in promoting market based service provision through private providers and fee based SME finance training. SMEDSEP and the MI Project can collaborate closely in project implementation in conflict prone areas.

As one of the project’s major aims is the development of micro-health insurance products, a close interface also exists with the GTZ project “German Support to Health Sector Reform and Population Management Program in the Philippines” project (PN 2004.2047.1) which provides direct TA in the area of development of locally-based health services including the KASAPI program of PhilHealth.

The MIP project will explore possible areas of cooperation with the ADB MI project, e.g. in terms of financial literacy and regulation and supervision of MIO-MBAs.

A joint project steering committee at the NCC level, for example, may be possible to ensure synergy of projects implementation. Similar areas of cooperation shall also be explored with the existing CCA / Cordaid project with RIMANSI, and as well with ILO and IFC or other development partners who may have interest in the future to develop market-based microinsurance products and services.

Specifically, the field study for development of the financial literacy handbook should work closely with the ADB project and with the ILO research efforts to ensure complementation and minimal overlap.

A close collaboration with KfW should be encouraged and would be welcomed by GTZ. The exact interface with KfW is still under discussion. It should be clearly defined prior to the submission of a project proposal.

6.4 Assumptions and risks

The assumptions and risks are regarded as external factors in that they are not directly under the control of project implementers but are nevertheless essential for project success. These are categorized at the levels of the expected results. The list is not exhaustive; others may be identified as implementation progresses.

Risk Level	Assumption and risk	Measures to mitigate or limit impact
Project Impact	<ul style="list-style-type: none"> Economic and political stability 	
Objectives (outcomes)	<ul style="list-style-type: none"> Reforms addressing institutional issues in public sector such as DOF, PhilHealth, IC, etc will be made Policy and regulatory frameworks remain conducive and supportive of microinsurance Political issues do not interfere with project objectives- e.g. rampant abuse of the indigent program Consensus can be reached with regards to self-regulation and performance standards Partner organizations remain committed to the project objectives 	<ul style="list-style-type: none"> Support to research studies on microinsurance; dissemination of results and advocacy for conducive policy and regulatory environment; Continuing dialogue with the regulators thru the SRO to be established; academics requested to participate in dialogues and forums on microinsurance; similarly, dialogues with legislators Effective use of mass media by the project implementing unit (PIU) to inform the public, generate consensus and advocate for reforms

Risk Level	Assumption and risk	Measures to mitigate or limit impact
Outputs	<ul style="list-style-type: none"> • PhilHealth, IC, and other stakeholders are open to innovation and experimentation • Partner organizations have resources to contribute their required counterparts • Consumers are open to awareness and financial literacy campaigns 	<ul style="list-style-type: none"> • Work with the dedicated KASAPI unit within PhilHealth • Partner selection based on a protocol • MOA • Close monitoring of use of outputs in the insurance literacy campaigning to ensure more knowledgeable decision making is taking place among the target groups

7. Implementation Planning

Planning and realization phases

The project is planned initially for a total of 3 years with 3 Mio Euro earmarked in the latest Government negotiations. After the initial phase of 3 years a re-assessment should take place, allowing closer consideration not only of the pilot phase experiences but also the overall project set-up and interfaces with ongoing programs. These programs serve as anchors for subsequent activities geared towards sustainability and replication of the 1st phase.

Project region

The macro and meso level, as well as other strategic components (e.g. financial literacy work) will be implemented nationwide as they cannot be allocated to a specific region and their partners are located in Manila.

However, some components with direct implications at micro level of the project should initially be implemented on a pilot basis in Visayas and Mindanao, hence the target groups will be located in these regions. At the latter stages of the project, the pilots should be replicated.

Organizational structure

The project should comprise of a Project Implementing Unit (PIU) located either at one partner institution (if there is no conflict of interest) or at the GTZ office (to be determined). A project management team will implement the day-to day activities, conceptualize support measures and innovations as well as be in charge of monitoring and evaluation and be the link to all national and globally active partners.

The PIU should act upon the periodic planning developed by a Project Steering Committee (PSC) where relevant partners and other sector-relevant persons (e.g. from the Banking Supervisor, the SSS, donors, or from GTZ-SMEDSEP) get together regularly, e.g. half-yearly. The PSC should however be kept small enough and easy to manage- other institutions that could not be on the PSC could still participate at periodic meetings. The PSC is also in charge of revising and acting upon the monitoring information provided by the PUI.

Personnel concept

The personnel of the project will be comprised of three persons:

- a) A international long-term advisor with a proven track-record in microinsurance and project management;
- b) A local advisor with a proven track record in microinsurance
- c) Support staff (driver, secretary) depending on where the project is located (in case the project shares offices with SMEDSEP of GTZ Office, full staffing may not be necessary);
- d) Local and international short-term experts (5 person-months international. 10 person-months local over 2.5 years)
- e) DED expert in MI-MBAs, or other organizations

Actor's inputs

Inputs from German Government are the contract value of 3 million Euros for the first phase of 3 years as agreed in the Government-to-government negotiations of June 2007.

Inputs from the partner side are not quantified yet, however, partners will be expected to invest considerable inputs in financial and human resources (staff time and funding of activities) which are expected to amount to a multiple of German funds. The political will of the principal partners is the decisive criteria for selection and this should be verified again before submitting a proposal to BMZ.

Concrete contributions in staff, kind, cash or other expertise will be defined in detail in the Implementation Agreement.

The project is expected to mobilize considerable inputs from third parties, among those from the FIRST Initiative (for Insurance Commission), from two Gates Funded Microinsurance Projects (at ILO and at Opportunity International), from CRS activities or under PPP facilities of large insurers such as Zurich, Allianz or Munich Re, from bilateral donors and from other sources to be explored still. There is a good chance to mobilize more funds as microinsurance is a growing field in donor assistance and private investment. However, the project is conceptualized in a way that is also fully operational without these external funds. As such, the expected inflow of funds will require adequate management solutions and an expansion of activities which have to be discussed with the PSC and GTZ/BMZ.

Activities and planned timeframe up to launch of the project

The launch of the project should be still in 2008 as the immediate need for support in the sector is huge, and expectations at all partner levels are high. GTZ/BMZ is now in the unique situation to be the first sector-wide promoter of microinsurance in the Philippines and act as a catalyst of other donor activities.

It may be wise to start with one activity which is well-received before the start of the project such as a demand study if human and financial resources allow this, and a local partner can be found who implements the activity (e.g. demand study).

Annex 1 - List of Persons/Institutions Met

N°	Person/Function	Institution	Email Address
1.	Evangeline Escobillo, Commissioner	Insurance Commission	oiic@pltdtdsl.net
2.	Constancia Rosacia, President & CEO	APPEND	constancia_rosacia@yahoo.com
3.	Gilbert Meramba	NWTF	
4.	Raymond Serios	NWTF	
5.	Carlos D. da Silva, President	I-Care	cdasilva@icare.com.ph
6.	Art C. Libao, Senior Manager	I-Care	aclibao@icare.com.ph
7.	Manolito A. Novalez, Program Officer	GTZ Health (Kasapi)	Manolito.Novales@gtz.de
8.	John Basa, Corporate Planning Officer	PhilHealth	
9.	Madeleine de Rosas Valera, MD, MSchH	PhilHealth	Madz_valera@yahoo.com
10.	Joseph Omar O. Andaya, President	Green Bank	omar_andaya@yahoo.com
11.	William Martirez, Country Manager	Micro Insurance Agency,	iloilo.mph@gmail.com
12.	Angel L. de Leon, Jr., Executive Director	TSKI	tski_ho@yahoo.com
13.	Eiichi Sasaki, Financial Sector Specialist	ADB	esasaki@adb.org
14.	Kenichi Hirose, Social Protection Specialist	ILO	hirose@ilo.org
15.	Dr. Luc Vaillancourt, Access to Finance	IFC	lvallancourt@fc.org
16.	Anja Gomm, Project Manager	GTZ SMEDSEP Trade	anja.gomm@gtz.de
17.	Jose P. Againo, Director	SEC	
18.	Ms Merl Pascual, Division Head Asst Dir.	SEC	
19.	Fermin L. Gonzalez, Pres. CEO	CLIMBS	climbcompany@yahoo.com
20.	Jorge G. Lumasag, Vice President –	CLIMBS	climbcompany@yahoo.com
21.	Lisa Santos	CDA	
22.	Neill Santillan, Executive Director	CDA	
23.	Joselito Almario, Director	National Credit Council	itoy_ph@yahoo.com
24.	Jochem Lange, Country Director	GTZ Philippines	jochem.lange@gtz.de
25.	Carmelita Bilaoen, President	People's Bank of CARAGA	
26.	Cristina Bulaon, Head	FRIEND Foundation	
27.	Jose Mosquite, General Manager	OCCCI	jomosquite@yahoo.com
28.	Judge Garcia, Chairperson	Cebu CFI	
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Annex 2 - MIP Stakeholders Workshop presentation



Making Markets for Social Insurance and Social Services Work for the Poor

Appraisal Mission Findings and Recommendations

5 December 2007

Team: Dante Portula, Gilberto Llanto,
John Wipf
(with support from Julian Ackermann, Anja Gomm, Martina Wiedmaier-Pfister)

Page 1



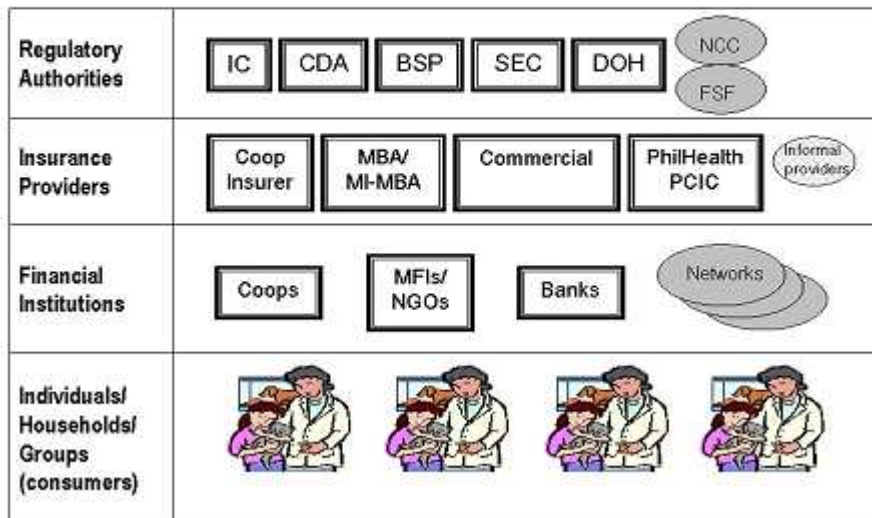
1. Background

- NEDA request to GTZ (Nov 2006), pre-appraisal mission (March 2007)
- GTZ health and private sector development programmes
- Appraisal Mission to further assess potential new project (MIP):
 - ✓ MFIs (Green Bank, PoBC, TSKI, NWTF), APPEND network
 - ✓ Coops (OCCCI, Cebu CFI)
 - ✓ MBAs (RBT, ASKI, PBoC), Rimansi
 - ✓ Commercial insurers (Pioneer, CLIMBS)
 - ✓ Public (PhilHealth, DA)
 - ✓ Regulators (IC, CDA, SEC, BSP), National Credit Council
 - ✓ Development partners (ADB, ILO, IFC), individual experts
 - ✓ Clients (FGDs)
 - ✓ Others – MIA, Association of HMOs

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2. Overview (intermediaries, re-insurers and third party administrators)



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3. Key Findings (a)

A. Insurance Providers (1)

- The MFI sector is growing in terms of outreach. Most if not all MFIs are channels for MI distribution, hence microinsurance is also covering more MFI borrowers and their families.
- An increasing number of commercial insurers are interested to serve the informal and low-income sector. A few already have tie-ups with MFIs and other groups.
- There are still many MFIs and membership-based organizations such as co-operatives engaged in informal risk pooling activities.
- There appears to be a positive trend towards professionalizing and/or formalizing MI services.

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3. Key Findings (b)

A. Insurance Providers (2)

- Management of PhilHealth KASAPI is realizing that there is a need to better address the varied needs within the informal sector.
Issues: product fit, delivery mechanism, internal processes.
- Participation in product development, self-governance, better servicing expectations, the spirit of solidarity, and access to technical guidance appear to be the key decision points for opting to take an MBA approach over partner-agent.
Issue: Limited resources to regulate the proliferation of MBAs.
- On the other hand, MFIs who choose to focus on their core competence of savings and credit providers tend to favor a partner-agent approach.
Issue: Limited product fit.



3. Key Findings (c)

B. Clients (1)

- ◆ There appears to be an increasing consumer awareness (financial literacy), especially in areas where MFIs/coops have been operating for some time. In areas where MFIs are competing, clients are now choosing the MFI with the more attractive insurance programme, and demand for increased coverage and for new MI products is also increasing.
Issues: mistrust is prevalent, better products needed for those who are aware.
- ◆ According to SEC, there continues to be a problem of consumer exploitation especially in the rural areas where the regulators cannot monitor the activities of pre-need and insurance agents.



3. Key Findings (d)

B. Clients (2)

- ◆ With growing consumer awareness there is a real threat of **adverse selection** in the industry. Although the problem exists, the extent of it is not known since there is **no centralized database** or any form of industry collaboration to monitor it. The problem will likely increase as MI awareness and access to coverage increase in the future.

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3. Key Findings (e)

C. MI Products

- ◆ Common products offered by all MI programs are credit-life and other life products. These are also the main offerings of commercial insurers.
- ◆ The vast majority of MI providers **do not offer comprehensive health insurance**. Most only offer hospital-income or a fixed benefit in case of hospitalization due to an accident.
- ◆ Some MFIs and coops also offer **limited savings**, retirement and non-life products.
- ◆ MIA is initiating research and product development on health and crop insurance.
- ◆ There is an **un-accounted** number of “damayan-type” programmes in the country (CDA estimates at least 50% of active co-operatives).

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3. Key Findings (f)

D. Delivery Schemes

- ◆ NGOs, coops and rural banks are the most common distribution channels of MI.
- ◆ In Philippines, four approaches are commonly used: 1) MBA 2) Partner-agent, 3) In-house, and 4) a combination of #1, #2 and #3.
- ◆ The MBA approach is more favorable to clients because they have control of the management and can plow back surplus to deliver higher benefits and new products. On the other hand, they are more **susceptible to financial ruin** without proper reinsurance and second, they have very **limited risk management capacity**.
- ◆ The partner-agent approach is more favorable to MFIs because it largely frees them from the MI administration issues and allows them to focus on their core competence, i.e. credit-savings. (stick to "safe" products).

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3. Key Findings (g)

E. Development Partners

- ◆ ADB has a project on MI that will start implementation early next year. The components of the project include: 1) enabling environment, 2) financial literacy, and 3) capacity building. The executing agency is NCC and the implementing agencies are IC, CDA and NAPC.
- ◆ ILO has no current and upcoming project. They commissioned though a needs assessment survey on social security. The results will be available next year.
- ◆ IFC has no MI project. Focus on SME finance thru PEP program.
- ◆ GTZ Health program supports PhilHealth-KASAPI. But GTZ Health will end its support on 2009.
- ◆ Another German Organization (AWO) has supported a health insurance pilot project in Batanes. The support has already ended.
- ◆ CCACIDA and Cordaid have a 3 year project with RIMANSI

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3. Key Findings (h)

F. Regulation, supervision, and policy issues

- ◆ IC – change of Commissioner however the Commission has confirmed its support for MI-MBAs. Problem: limited resources and freeze on new hires, therefore difficult to register and monitor a large number of new MBAs hence an expressed need to develop self-regulation
- ◆ IC – New circular on Risk-based Capital for MI-MBAs needs to be “fleshed out” and implementing guidelines need to be developed (RBC insures appropriate capitalization for each MBA based on its portfolio).
- ◆ SEC/pre-need – still a pending bill to transfer pre-need to IC
- ◆ HMOs – still want to be regulated by IC



3. Key Findings (i)

G. Support Infrastructure (1)

- ◆ RIMANSI is currently the visible fee-based capacity building technical services provider of the MI sector. The organization focuses on establishing MBAs in the Philippines and in SE Asia. CCA and Cordaid provide grants to RIMANSI.
- ◆ MIA is a newly organized MI service provider and acts as an industry agent (soon to be a broker). It is a non-stock, non-profit company fully owned by a subsidiary of Opportunity International. At the moment, MIA is serving the APPEND network members and sources its products from Cocolife Insurance Company. MIA adds value-added services such as improving efficiency of transactions and claims processing to the partner-agent setup.



3. Key Findings (j)

G. Support Infrastructure (2)

- ◆ Other potential CD providers (with market-based approach) are the Ateneo de Manila University and CARD Training Institute.
- ◆ Networks of MFIs and NGOs such as APPEND, MCP and NATCCO provide facilitation roles to their members especially in organizing learning exchanges activities.

Issue: Lack of MI specific training.



4. Conclusions (a)

- ◆ Insurance penetration in the country remains relatively low, especially in the informal sector. On the other hand, the microfinance industry is growing rapidly. Since MFIs are the main delivery channels of MI today, this industry is also expanding rapidly and has very large potential in the next few years.
- ◆ MFIs are creating economic opportunities that have a big impact on allowing the poor and vulnerable SMEs to become productive. MI, being complementary to microfinance further contributes towards this development, e.g. by allowing them to stay productive.
- ◆ There are two paths to MI provision: the MBA approach and the Partner-Agent approach. MBA approach is becoming more popular among MFIs and coops due to the work of RIMANSI.



4. Conclusions (b)

- ◆ The partner-agent is an alternative approach to formalizing the provision of MI services. This approach is favored by MFIs who want to focus on their core business of microfinance.
- ◆ Increasing financial literacy about MI appears to be an important opportunity for donor intervention since this will 1) enable the poor consumer to make more informed decisions in selecting appropriate coverage; 2) decrease the threat of exploitation by unscrupulous agents and providers; and 3) further the aim of promoting better financial planning and a savings culture among Filipino families.



4. Conclusions (c)

- ◆ There is a need to innovate health insurance products using MBA and partner-Agent approaches integrating PhilHealth Kasapi.
- ◆ ADB, CCA/Cordaid, and the MIP project have big potential to create synergy and complementation. A joint coordinating body should be chosen.
- ◆ ILO can possibly cooperate with the program in areas of research and product development.
- ◆ Regulatory: IC continues to be committed to open the door to MI-MBAs but the Commission needs some help with developing self-regulation, performance indicators and bench-marking, and RBC implementation.
- ◆ There is an expressed need for new products: notably weather and crop insurance, as well as non-life products to cover productive assets of HH and SMEs.



- Validation
- Inputs
- Questions



5. Principles of Cooperation

- Systemic approach (four levels)
 - Sustainability and long-term vision
 - Co-funding and PPP
 - Networking (CGAP, WG, IAIS, donors, GTZ projects)
 - Paris Declaration (e.g. alignment, harmonisation results-based management)
- *“measurable improvement of access”*



6. Recommendations – Proposal (a)

<p>Goals (broad)</p>	<ul style="list-style-type: none"> ▪ Poor households have greater stability and <u>economic security</u> vis-a-vis risks that affect them. ▪ MSMEs are better insured against risks which threaten their competitiveness and existence.
<p>Results</p>	<ul style="list-style-type: none"> ▪ Wider outreach of MI services to poor households and MSMEs including in conflict areas. ▪ Deeper coverage of MI products to include health, pensions, weather and productive assets to reduce impact of illness, deaths, enterprise risks. <p>(define regional focus, pilot areas) – narrow it down..</p>



6. Recommendations – Proposal (b)

<p>Components/ Strategies</p>	<p>C 1: Enabling Environment</p> <ul style="list-style-type: none"> ▪ Capacity Building of <ul style="list-style-type: none"> ▪ Industry (regulators and the association) ▪ Association of MI providers (self-regulation including performance indicators) <p>C 2: Market-based MI Innovations</p> <ul style="list-style-type: none"> ▪ Health Insurance Innovations (integrating PhilHealth product but <u>with product complementation</u> + simplified admin and claims) ▪ R&D: Product dev (weather, productive assets, with MIA and insurers) <ul style="list-style-type: none"> ▪ Demand study. ▪ Financial literacy – research + dev of communication strategies ▪ Capacity building of intermediaries. ▪ Promotion of linkages and information exchange within the industry
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6. Recommendations – Proposal (c)

Indicators	<ul style="list-style-type: none"> ▪ Outreach – increased # HHS covered by region with formalized life and health insurance. ▪ Risks Covered – # of HHS/MSMEs covered with new products. (e.g. weather, asset – for verification). Baseline: xxxxx ▪ Quality of Service – Improved efficiency of claims payment, value for money (e.g. extent of benefits vis-à-vis amount of premium, service quality, etc) ▪ Sustainability – increased # of providers that formalized their MI activities, stability of MI providers (solvency ratio). <p><i>Comment: check the coherence with goals and results.</i></p>
Activities	<ul style="list-style-type: none"> * To be developed
Risks / Concerns	<ul style="list-style-type: none"> ▪ Risk of political interventions in the regulatory agencies. ▪ Willingness of players to make structural/policy changes. ▪ RIMANSI – promotes MBA model only (may alienate other players) <p><i>(RIMANSI is already working on new models therefore they will not anymore exclusive to MBA model)</i></p>

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6. Recommendations – Proposal (d)

Partners	<ul style="list-style-type: none"> ▪ National Credit Council/Department of Finance – <i>as executing agency in coordination with DOH for PhilHealth concerns.</i> ▪ IC, DOH, other regulators ▪ Providers – CLIMBS, PhilHealth, others ▪ Capacity Building organizations – RIMANSI, MIA, IIAP, others ▪ DED (as expert advisers – for intermediaries, pilot health insurance partners) – in consultation with NEDA and PNVSCA. ▪ Possible complementation with ADB, CIDA, CordAid under their existing programs with the NCC and RIMANSI. ▪ Private sector partners for PPP (component 2). <p>Note: need to further define selection criteria, e.g. track record, sustainability, coordinating capacity, etc..</p>
Geographic Area	<ul style="list-style-type: none"> ▪ Component 1 - National ▪ Component 2 – National and Regional, Visayas and <i>Caraga(still for discussion)</i> <p>Note: we still need to define selection criteria.</p>
Timeframe	<p>First phase – 3 to 4 years</p>

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7. Next Steps

- Mission Appraisal Report – Dec. 2007, draft
- Writing of technical offer to BMZ – Feb 2008
- Start of project implementation – mid 2008
- Project structure and activity planning – last qrt. 2008



8. Many thanks!!

- Validation
- Inputs
- Questions

The GTZ appraisal mission team wishes to sincerely thank everyone for their dedication, support, precious time and valuable knowledge shared with the team.

Annex 3: Highlights of the MIP Stakeholders Workshop

Highlights of the Microinsurance Innovations Project (MIP) Stakeholders Validation Meeting

1320 to 1700, 5 December 2007

Santa Maria Conference Room, Discovery Suites, Ortigas Avenue, Pasig City

1. Welcome

Lorenzo Templonuevo, the meeting facilitator, welcomed the participants. He gave a short background on the initial steps done in March 2007 that led to the conduct of the Appraisal Mission that will prepare a draft design of a GTZ project on MicroInsurance Innovations in the Philippines. He said that the meeting was for the participants to

- listen to the Mission team's findings, conclusions and recommendations on the concept and design of the proposed project
- share their views and comments on the presentations and
- come to a consensus agreement so that the information generated during the meeting will benefit the intended "beneficiaries" of the proposed project

2. Opening remarks

Anja Gomm, the GTZ SMEDSEP Program Manager, extended a warm welcome to the participants coming from the Asian Development Bank (ADB), the German Development Service (DED), Insurance Commission, Risk Management Solutions Incorporated (RIMANSI), Microfinance Council of the Philippines Incorporated (MCPI), National Economic and Development Authority (NEDA) and the Philippine National Volunteer Service Coordinating Agency at NEDA office.

She found the topic on Innovations on Microinsurance (MI) interesting. She hoped that with the findings of the top experts on the subject who moved around the country in the last ten days, a "spicy project" can be cooked out of their findings and recommendations that will benefit further enhancements from the inputs of the meeting participants.

She mentioned that the work of the Mission started off mainly from the paper "supply and policy research report" from RIMANSI. She said the meeting was to validate the initial ideas of the Mission team and she looked forward for a fruitful discussion.

3. Introduction of attendees

The moderator presented the mix of meeting attendees which came from (1) the German Development Cooperation, (2) development partners, (3) regulatory agencies, (4) support organizations / networks, (5) members of the appraisal mission team and (6) GTZ SMEDSEP.

Individual introduction that included the name, organization and work in it and work base, followed (Annex 1 List of Participants).

4. Workshop objectives, methodology, results, friendly reminders

The moderator presented the objectives of the meeting, as follows

- discuss appraisal mission's key findings and conclusions
- discuss proposed MIP concept and design
- validate findings, conclusions, concept and design of the proposed Microinsurance Innovations Project (MIP)

He presented the input-output-results cycle as the methodology to be used in the meeting. The inputs are the powerpoint presentations to produce the outputs. The results are the inputs from the participants to firm up the design of the proposed MIP and to gain their support for its implementation.

He finally gave the graphic visual aid on friendly reminders that included availability of coffee, putting mobile phones on silent mode, getting to the rest room and maintaining a "let's do it" attitude.

5. Presentation 1

Dante Portula, Member of the Appraisal Mission Team, made the presentation that encompassed the

- background
- overview on range of stakeholders at various levels
- key findings on the Insurance Providers, clients, MI products, delivery schemes, development partners, regulation / supervision and policy issues and support infrastructure and
- conclusions (Annex 2 Presentation 1).

6. Open forum

Below is the summary of the observations made on the presentation

1. From the Insurance Commission

That the need for microinsurance cropped up out of the development work of the microfinance institutions (MFIs) which include the cooperatives. The Commission is very keen in its directive to the MFIs to keep separate accounts for microfinance and microinsurance funds to avoid mingling of funds. The Commission is cautious on the MI products that MFIs promote on the observation that the MFIs do not have the administrative expertise to manage the MI products. The Commission though recognizes that MFIs and cooperative members need more comprehensive insurance coverage which include, among others life, health, property and crops.

2. From the Asian Development Bank with comments from the Mission team

2.1 In Microinsurance, 2 angles need to be looked at, (1) organizational side and (2) product side. On the organizational side the International Labor organization (ILO) has done a study on MI projects. One study looked at the effects of the synergistic collaborative efforts of small MI organizations. Another one looked into the tendency and actual experiences of large insurance companies getting into the business on microinsurance. Cases documented were from Panchad, Pakistan and India. The experience in India has recently met some challenges. From the sharing of experiences on MI work held at Mumbai, India two weeks ago, the cases of the RIMANSI Philippines Mutual Benefit Approach (MBA) and the India community based approaches gained recognition which were recommended for wider application by the event participants including the development partners.

RIMANSI being one of the case presenters in the Mumbai conference, also highlighted the approach on providing MI products through the Mutual Benefit Association (MBA).

2.2 It is recognized that each MI product is targeted to respond to the need of a specific market. However, from the experience of ADB in implementing microfinance programs it found out that poor households badly needed two main products, which are (1) life insurance and (2) health insurance.

So ADB will be implementing soon an MI project through the National Credit Council, as executing agency, that will further promote life and health insurance products to complement the efforts of its various ongoing microfinance programs. And to achieve efficiency in the implementation of the MI programs three areas will be given focus

1. Improving the enabling environment (review and enhance policies related to microinsurance such as the Insurance Code of the Philippines)
2. Capacity building for regulating agencies and MI institutions
3. Awareness building and financial literacy measures through the National Anti Poverty Commission (NAPC) which include activities such as training of trainers (ToT) and accreditation of training institutions for MI related subjects

3. From the GTZ Health Program

The GTZ Health Program works with PhilHealth in promoting the KASAPI joint project. PhilHealth is a government insuring corporation responsible for implementing universal health insurance coverage for all Filipinos. But this entity has limitations to achieve such objective and mandate because of insufficient policy support.

PhilHealth realizes that adopting a “one product fits all” approach is not working. PhilHealth observes a growing tendency of adverse selection among their clients.

It was on these lessons that the GTZ Health Program has, since the last two years, collaborated with PhilHealth to initiate some change processes to overcome the situation and thus the birth of KASAPI.

Now that the GTZ Health Program is about to wind up it is good to outline some way forward, i.e. steps to slowly close the large gap on developing the capacities of Philhealth to develop and administer market segment specific MI products.

This gap can be addressed by strengthening the synergies of existing MI market players and networks. Specific hints can be that / will be to

- RIMANSI comes up with a training module to complement the promotion / marketing and to enhance the MI product delivery mechanisms / channels of Philhealth
- Build on the momentum to improve the delivery channel of Philhealth’s health insurance products by using the MBA and partner – agent approaches. An idea might be to pilot with Philhealth’s existing network base comprised of 15 MFIs.
- Review existing policies on microinsurance to make social insurance coverage easier to expand its reach to a large number of informal sector households who badly need it.

4. From the RIMANSI

To reiterate, the Philippines’ RIMANSI MBA approach for microinsurance has been considered a best practice / model during the conference on microinsurance held at Mumbai, India two weeks ago.

Specific for this proposed project the following key questions may have to be answered:

- What is its target geographic scope of operation?
- What are the priority MI products it intends to innovate on and come up with?
- Who will be its implementing agency from the side of the Philippine Government?

These questions have been generally responded during the presentation of the proposed project design. Elaboration will be done during the project planning next year.

5. From the ADB with response from the appraisal mission

The statements on the conclusions presentation can be grouped into three types, (1) assessment, (2) what is desirable and (3) who is doing what?

Under the 'what is desirable' category, ideas can be that the proposed project will include activities on

1. Research and development to (1) improve / innovate on existing MI products and come up with new ones, that is, products not widely offered now but could have big impact to the informal sector, to offer a wide range of MI affordable products for the informal sector and (2) improve / innovate on existing processes related to the product delivery channels / mechanisms.
2. A more elaborate "research" is for the project to test and come up with the appropriate / working institutional set up within the Philippine Government system to fulfill the objective of providing wider social insurance coverage for the poor.

6. From DED with response from the appraisal mission

As regards statistics on the minimum number of client base to sustain the operations of MI, available data from social insurance studies done by the ILO, World Bank (WB) and GTZ show that for life insurance products about 12,000 clients have to be maintained. For the health insurance products it is about 2,000. This minimum requirement though varies across specific geographical contexts and framework conditions.

7. From the appraisal mission

To add under the conclusions part of the presentation

- To include in the proposed project activities to respond to **the need on consumer protection for social, weather and preneed insurance products** as expressed by the Securities and Exchange Commission (SEC).

7. Synthesis of Presentation

To conclude the open forum the moderator presented to the body some of the key points above cited under point number 6.

8. Presentation 2

Dante Portula then continued the presentation of the draft design of the proposed GTZ project. The presentation included, (1) principles of GTZ on Development Cooperation, (2) draft project design and next steps after the mission (Annex 3 Presentation 2).

9. Open forum

Below is the summary of the first part of the open forum. The agreements reached in the second part of the session were directly integrated into the presented draft design of the proposed project.

1. To respond to the risk assessment statement that other MI providers will be crowded out if the proposed project will mainly work with RIMANSI on the MBA approach, the Executive Director clarified that RIMANSI is already collaborating with other institutions to improve its network for efficient product / service delivery system and also promote other MI models in the future.
2. On the risk statement on the vulnerability of the MI regulating agencies to politicization, it was modified to read, *political intervention on the MI regulatory agencies*.
3. It is the idea that the proposed project will work on two pilot MI model innovations. One will use the MBA approach and the other will use the partner – agent approach. The former will build on the experience of RIMANSI and the latter on that of the MicroInsurance Agency (MIA). The two models will both carry the PhilHealth product to compliment with the existing health insurance products of the host MI providers.
4. The five areas which each pilot project will have to innovate on are
 - product fit
 - customized pricing
 - localized data management and card issuance
 - localized claim processing and
 - premium and preneed financing
5. It is clarified that it is the Department of Health (DOH) that regulates the PhilHealth. The IC regulates the MFIs that provide MI products to its members. There is a continued policy advocacy though from the industry that the regulation of Health Management Organizations (HMOs) and preneed companies be harmonized under IC.
6. The specification on the geographical location of the pilot projects will be included under the results section of the design.
7. There is optimism that the proposed project will have a meaningful contribution to the efforts of Philhealth to expand implementation of its community based social insurance program which the entity has been working on in the last decade with hardly significant impact.

10. Presentation on the role of the GTZ proposed project to enhance market based delivery of MI products to the poor

Anja Gomm presented a draft stakeholder's map of the proposed project stressing its role to support market / demand driven delivery of MI products to identified target clients. She clarified that the proposed project makes use of the Market Service Development model to promote private sector development within the emerging microinsurance industry of the Philippines. This means that with the implementation of the proposed project capacities of MI regulating agencies, intermediaries and target markets will be developed with built up knowledge exchanged and utilized to improve processes and systems of the respective key stakeholders who will be

strategically involved in it. The presentation might be integrated into the final report of the Appraisal Mission.

11. Closing Remarks

Ms Vida Chiong, Deputy Commissioner of the Insurance Commission, said that the participants did a very good job in the meeting. The group discussed on a proposed project design to fulfill a very noble objective. She could not thank the GTZ, to Anja Gomm, in particular, enough. She looked forward with great interest for the implementation of the proposed GTZ project.

12. Evaluation

The moderator had the participants moved around to do an evaluation of the meeting. Using the space between the arranged tables he had an imaginary rating scale for the participants to choose a spot to stand on. There were two points to get feedback on

1. degree of satisfaction on the process and results of the meeting and
2. degree of satisfaction on the quality of the design of the proposed project

Highest rating is very satisfied and lowest rating is least satisfied.

On question number 1 about 85 percent of the participants were very satisfied on the process used and results of the meeting. They were given the opportunity to give their comments, good food was served, venue was comfortable, facilitator was very competent and over all preparation of the appraisal team was very good.

Those who rated just about average satisfaction on the process of the meeting cited the following weak points

- absence of private sector representation
- limited ideas to share because of limited knowledge on the topic being discussed
- limited inputs from other experts and development partners on the topic due to time limitation

On question number 2 about 95 percent of the participants were very satisfied with the enhanced design of the proposed project. They felt the project is an appropriate response to serve the social insurance needs of the poor and the effort was very good in the very short time the team had. One person wanted to have a more detailed outcome to evaluate the findings.

Those who gave above average satisfaction rating clarified that the design still needs further detailing and happy that the meeting generated some of the information needed to refine it.

It was on this satisfied and happy note that the moderator thanked everyone for the successful conduct of the meeting.

Documented by
Elpe P. Canoog
5 December 2007
Makati City

Annex 4: Microinsurance (MI) Supply and Policy Environment Survey

**GTZ Microinsurance Innovations Project
SUPPLY AND POLICY ENVIRONMENT SURVEY⁹⁷**

⁹⁷ Conducted by RIMANSI Organization for Asia and the Pacific for the GTZ, December 2007

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I. INTRODUCTION

The conduct of the Microinsurance Supply and Policy Environment Survey was prompted by the need to have deeper understanding of the supply side and policy environment of microinsurance in aid of discussions and formulation of recommendations for the GTZ Microinsurance Innovations Project (MIP).⁹⁸ The Survey generally aimed at generating the supply side and policy environment inventory and analysis for microinsurance and in particular to i) identify microinsurance providers and their operations, ii) find out stakeholder assessment of performance of microinsurance providers, and iii) summarize the gaps and policy issues and formulate recommendations.

The Survey covered microfinance institutions (MFIs) and microinsurance providers operating in the Visayas and Caraga regions.⁹⁹ Based on outreach or the number of clients, top MFIs in the said regions were selected and targeted to be included in the survey. Lists of MFIs were obtained from the Bangko Sentral ng Pilipinas (BSP), National Livelihood Support Fund (NLSF), People's Credit and Finance Corporation (PCFC), and Visayas Cooperative Development Center (VICTO). The availability of key informants from the selected MFIs was also a key factor in the final set of MFIs interviewed. The final set of MFIs covered by the survey totaled to 20 which includes 11 in the Visayas, 8 in Caraga and 1 based in Metro Manila (see list in Appendix A). Key informants from these MFIs were interviewed using a structured questionnaire as guide (shown in Appendix B).

For information regarding regulatory and policy environment, the Insurance Commission (IC), National Credit Council (NCC) and the Securities and Exchange Commission (SEC) were also visited. The views of the Microfinance Council of the Philippines (MCP) were also gathered for purposes of the survey. The actual interviews were done from November 5-19, 2007.¹⁰⁰

II. SURVEY FINDINGS

A. Profile of MFIs/Microinsurance Providers

By type, the 20 MFIs/microinsurance providers covered by the survey are 6 cooperatives, 5 rural banks (RBs), 7 non-governmental organizations (NGOs), 1 mutual benefit association (MBA) and 1 commercial insurance provider (CIP). The distribution of these institutions by type and by location are shown in Table 1.

⁹⁸ Survey findings are intended to facilitate the discussions and formulation of recommendations for the GTZ Microinsurance Innovations Project (MIP) Appraisal Mission on November 21 to December 5, 2007.

⁹⁹ This geographical coverage (Visayas and Caraga) was specified in the Survey Terms of Reference (TOR).

¹⁰⁰ Many of the commercial insurance providers contacted were not available during the survey period.

Table 1. Number of MFIs/Microinsurance Providers Visited, by Type of Institution

	Visayas	Mindanao	Nationwide	All Areas
MFIs				
Cooperatives	4	2		6
Rural Banks (RBs)	1	4		5
Non-governmental Organizations (NGOs)	5	2		7
Mutual Benefit Association (MBA)	1			1
Commercial Insurance Provider (CIP)			1	1
Total	11	8	1	20

Source: MIP Survey, November 2007

The total number of years in operation of 18 reporting MFIs ranged from 2 years to 42 years. The youngest in the microfinance business is the MBA which has been operating for only two years while the longest operating microinsurance provider is the CIP. On average, MFIs have been in operation for 19 years. Excluding the MBA and the CIP which are solely into microinsurance, MFIs such as cooperatives, RBs and NGOs have been providing microfinance particularly microinsurance for an average of 5 years (Table 2).

Table 2. Years in Operation of Sample MFIs/Microinsurance Providers

	Coops	RBs	NGOs	MBA	CIP	Total
<i>Years in operation</i>						
No. reporting	6	4	6	1	1	18
Minimum	9	10	4	2	42	2
Maximum	37	35	21	2	42	42
Average	26	22	8	2	42	19
<i>Length of MF operation</i>						
No. reporting	4	3	5			12
Minimum	1	1	2			1
Maximum	12	6	10			12
Average	8	3	5			5

Source: MIP Survey, November 2007

In terms of geographical scope of operation of these MFIs, half (10) cover or operate within one province while four (4) operate within a region (Table 3). Two cooperatives reported that they are in only the major municipalities within one province. The CIP which participated in the survey operates nationwide while the MBA serves clients in two provinces in Central Visayas.

Table 3. Areas of Operation of Sample MFIs/Microinsurance Providers

	Coops	RBs	NGOs	MBA	CIP	Total
Nationwide					1	1
Beyond 1 region			2			2
Region wide		1	1			2
At least 2 provinces	2			1		3
Province wide	2	4	4			10
Major municipalities in a province	2					2
Total reporting	6	5	7	1	1	20

Source: MIP Survey, November 2007

On average, MFIs have a network of eight (8) offices with personnel of more than 250. While the CIP interviewed is reportedly reaching many provinces nationwide including the Visayas and Caraga regions, it has only three offices with 65 employees. The MBA has only one office with more than 100 staff. It can be further noted from Table 4 that among MFI coops, RBs and NGOs, the NGOs have the least number of offices and employees. The smallest in terms of the number of offices and staffing are the cooperatives (Table 4).

Table 4. No. of Offices and Employees of MFIs/Microinsurance Providers

	Coops	RBs	NGOs	MBA	CIP	Total
No. of Offices						
No. reporting	6	4	5	1	1	17
Minimum	1	1	1	32	3	1
Maximum	15	8	15	32	3	32
Average	10	6	5	32	3	8
No. of Employees						
No. reporting	4	4	6	1	1	16
Minimum	31	100	36	103	65	31
Maximum	214	769	1518	103	65	1518
Average	139	311	349	103	65	254

Source: MIP Survey, November 2007

Total assets of 18 reporting MFIs range from P10 million to over P1.5 billion but on average amount to P433 million (Table 5). The respondent RBs have the biggest amount of resources averaging P774 million followed by the CIP with about P536 million while NGOs have the smallest assets averaging at P298 million.

In terms of networth, the CIP has the biggest valued around P246 million. Among the remaining MFIs, cooperatives have on average the largest capitalization (P115 million) while NGOs have the smallest at around P45 million.

Table 5. Assets, Loans Outstanding, Liabilities and Networth of MFIs/Microinsurance Providers

	Coops	RBs	NGOs	MBA	CIP	Total
Assets						
No. reporting	6	4	6	1	1	18
Minimum	10.1	129.3	36.8	387.3	535.9	10.1
Maximum	1,058.0	1,558.0	1,313.9	387.3	535.9	1,558.0
Average	332.5	774.3	297.9	387.3	535.9	433.5
Loans Outstanding						
No. reporting	6	4	5			15
Minimum	9.8	100.1	27.7			9.8
Maximum	956.2	936.1	705.2			956.2
Average	277.5	440.8	171.2			285.6
Liabilities						
No. reporting	6	4	5		1	16
Minimum	6.5	106.6	22.9		290.3	6.5
Maximum	511.7	1,316.5	1,156.5		290.3	1,316.5
Average	196.2	677.5	259.5		290.3	271.0
Networth						
No. reporting	6	4	5		1	16
Minimum	3.6	22.7	9.1		245.6	3.6
Maximum	502.8	241.5	158.3		245.6	502.8
Average	115.4	96.8	44.6		245.6	96.7

Source: MIP Survey, November 2007

B. Client Outreach

The outreach so far of 19 MFIs as shown in Table 6 totals to more than 1,180,000 clients or an average of more than 60,000 per MFI. The MBA and the CIP whose business are solely the provision of insurance services have the biggest outreach of at least 300,000 microinsurance clients. Among the other types of MFIs, NGOs have the highest number of microinsurance clients while cooperatives have the lowest consistent with the size of staff complement of these MFIs and geographical coverage. Moreover, cooperatives are mostly closed type organizations providing services only to members unlike NGOs or RBs which generally can cater to the general public.

Table 6. Client Outreach of MFIs/Microinsurance Providers

	Coops	RBs	NGOs	MBA	CIP	Total
No. of Total/MFI Clients						
No. reporting	6	5	6	1	1	19

Minimum	170	2,000	2,800	393,186	304,121	170
Maximum	37,000	33,975	207,501	393,186	304,121	393,186
Average	15,056	14,923	53,622	393,186	304,121	62,315
No. of Microinsurance Clients						
No. reporting	6	5	6	1	1	19
Minimum	170	2,000	2,000	393,186	304,121	170
Maximum	25,386	33,975	207,501	393,186	304,121	393,186
Average	11,302	14,923	53,488	393,186	304,121	61,088

Source: MIP Survey, November 2007

C. Microinsurance Products

Different types of microinsurance products are being delivered through various forms and mechanisms in the last 2-5 years (listed in Table 7). Clients of most MFIs (at least 13) are covered by loan or credit life insurance also known as mortgage redemption insurance (MRI). More than half of the MFI clients have life or term life insurance. A number (6) of MFIs have also facilitated the provision of medical or health insurance to members/clients. Other insurance products availed of by MFI clients are mortuary/burial plans, insurance against accident and retirement or savings plan. The common features of these insurance products are outlined in Table 8 and are discussed below.

Table 7. Basic Types of Microinsurance Products Provided to MFI Clients

Product/Policy	Coops	RBs	NGOs	MBA	CIP	Total
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

Source: MIP Survey, November 2007

Loan or credit life insurance is an insurance against loan default. It insures the outstanding loan amount of the borrowing members/clients (or depositors in the case of RBs). All respondent MFI compel their borrowers aged 18 to 65 years old to avail of this product along with the approval and receipt of their loans from the MFI. One NGO respondent, however, does not require credit insurance for loans amounting to P3,000 or less at time of death of the borrowing member/depositor, the loan is considered fully paid. Aside from the loan settlement, cash ranging from P1,000 to P20,000 are given to the surviving spouse or family member/s designated as beneficiaries. Premium cost for credit life insurance range from 6-10% of the outstanding loan while others charge a fixed amount per annum or per week (Table 8).

The *life (term life) insurance* is a separate facility from the credit life although it has an element of 'loan insurance'. Life insurance is usually for a fixed term and indemnifies the beneficiaries with the face value of the insurance policy in case of

death of the insured. It is similar to credit life in the sense that when an insured client dies and leaves unpaid loans from the MFI, the outstanding loan is paid out of the insurance proceeds. The balance of the insurance proceeds is given to the family of the insured MFI client. For most of the MFI respondent, life term insurance is normally not compulsory and is available not only to members but also to his/her immediate family or to his/her spouse and children. This is true particularly in the case of the People’s Bank of Caraga (PBC), a microfinance rural bank. 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 P60,000 for the life insurance (P50,000) and the balance for medical/burial assistance. The premium for such policy is P820 for one year.

Another insurance product availed of by clients of the respondent MFIs is *medical or health insurance* which mainly provides for the cost of hospitalization/medication in case the insured gets hospitalized due to sickness or injury. An example of this is the medical insurance provided by the insurance provider of RB Placer in Caraga. A member or his/her spouse covered by this insurance can avail of P200/day hospitalization allowance for a maximum of 15 days and no more than twice admission in a hospital during one year. Insured children have lower hospitalization allowance of P150 per/day. Meanwhile maternity benefits come in the form of P1,000 allowance 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 P10/week

The *retirement/savings insurance* is offered to the clients of an MFI NGO (Quidan in Bacolod, Negros Occidental) to employees or salary earners among its clients since 2005 through partnering with an MBA particularly under a ‘build-operate and transfer’ scheme. Those below 60 years old can avail of this plan and gets cash equivalent to the total amount of retirement/savings less any outstanding loan when he/she retires from employment. The premium/weekly contribution is P5 per week.

Mortuary and burial plans are usually riders to life term or credit life insurance when in case of death of members covered assistance usually in the form of cash is given to the family for the members’ funeral/burial expense. Members of a cooperative in Caraga have this type of insurance provided through a commercial insurer. They are obliged to pay P100 per month for mortuary assistance of P2,000.

Another plan provided to clients of an NGO based in Iloilo City for two years now is *accident insurance* which is a rider to life insurance. This plan provides for assistance to insured when he/she gets injured and hospitalized due to accident. Benefits or assistance range from P15,000 to P100,000 for weekly premium payments ranging from P14 to P28.

Table 8. Features of Microinsurance Products

	Credit	Life (e.g. PBC)	Medical/Health	Retirement
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Coverage	Outstanding loan (of all members/depositors)/P3 000 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

Source: MIP Survey, November 2007

D. Systems and Procedures

Delivery Mechanism

Microinsurance services of MFIs are delivered through the following delivery channels: i) in-house meaning that MFIs are the ones directly providing the service; and ii) in partnership with commercial insurance provider or existing MBA (Table 9). Provision of microinsurance in-house is done by a microfinance RB and three cooperatives particularly for small amounts of insurance cover. It was cited that providing insurance in-house speed up processing and payment of claims and “the easiest (fastest) way” to provide the service. Moreover, to a microfinance RB it is better to provide services in-house in terms of decision-making, i.e., the MFI is free to decide (Table 10).

Partnership with a CIP or an MBA is the more common means of providing microinsurance. In fact, all MFIs surveyed (except for an RB MFI) have partnered with a CIP (such as those listed in Table 9) and with an MBA. One of the main reasons given by MFI in partnering with a CIP is that it does not have the capacity and sufficient experience yet in providing the service. (This could explain why most respondent MFIs whose business is not purely microinsurance are not providing microinsurance services in-house or on its own.) It was also acknowledged that “CIPs are better equipped”. One MFI cited that the insurance provided by an MBA to its clients helps them be assured of loan payments should unforeseen events or misfortune happens to its borrowers. Some MFIs cited the commissions they earn in partnering with a CIP as a benefit they get from the partnership.

It is further noted that the CIP respondent partners with microfinance RBs and other MFIs in providing microinsurance to the countryside which partly explains its nationwide outreach despite few offices and relatively small number of employees.

Table 9. MFI's Delivery Mechanism for Insurance Products

	Coops	RBs	NGOs	MBA	CIP	Total
<i>In-house/directly provides the insurance service</i>	3	2		1	1	7
<i>Partners with a commercial insurance company</i>	6	4	3			13
CLIMBS	3	1				4
CISP	1					1
Country Bankers		1				1
GrepaLife		1	1			2
PhilAm		1				1
Pioneer Insurance	1					1
Unspecified	1		2			3
<i>Tie up with an existing MBA (CARD MBA)</i>			1			1
<i>Tie up with RB/MFI</i>					1	1
<i>Summary</i>						
In-house only		1				1
Partnership with CIP/MBA only	3	2	4			9
Both in-house and partnership with CIP/MBA	3	1				4
Total respondents	6	4	4			14

Source: MIP Survey, November 2007

Table 10. Cited Reasons for the MFI's Delivery Mechanism for Insurance Products

Delivery Mechanism/Reasons Cited
<i>In-house/directly provides the insurance service</i>
<ul style="list-style-type: none"> ▪ To supplement insurance provided through tie up with CIP ▪ To speed up processing & payment of claims ▪ In terms of decision-making, the company is independent to decide ▪ To strengthen MFI operation ▪ 'Easiest' way to provide services to clients
<i>Partnership with a commercial insurance company/existing MBA</i>
<ul style="list-style-type: none"> ▪ No sufficient experience yet to provide bigger cover in-house ▪ Commission given is additional income for MFI ▪ To supplement in-house insurance ▪ Offer is good and CIP is a stable insurance company ▪ MBA/insurer is owned by member itself

Source: MIP Survey, November 2007

Collection System

The collection system for insurance premium payments of members/clients of most MFIs essentially rides on MFI's loan collection system. Collections of premium payments are usually done during loan releases and/or collection of loan amortization payments. For instance, some (at least 6) MFIs collect insurance premium payments once every time it releases loans of members. On the other hand, there are at least four MFIs which are collecting insurance payments during weekly group meetings of members/clients wherein premiums are paid together with the loan amortization

payments. MFIs partnering with CIPs receive commission or service fees under the tie up arrangement.

In the case of the respondent commercial insurance provider (CIP), its partner MFI does the collection of microinsurance premium payments. Insurance fees collected by the MFIs are deposited in the account of the CIP in its depository bank. This arrangement along with other terms of the partnership is specified in the Memorandum of Agreement (MOA) between the CIP and its partner MFI.

Claims Processing

The documents required in processing claims and the period it takes to process claims for different types of microinsurance are shown in Table 11. Claims for loan/credit life and life term insurance should be supported by various certificates such as birth, marriage, death and/or barangay certificates. It can be noted that for life term and loan insurance, the processing period for claims is shorter if the insurance is provided in house compared to when insurance is provided by a CIP.

For medical or health insurance claims, the insured need to present doctor’s certificate and official receipts of hospital/medical expenses. Processing of such claims takes not more than two weeks or immediately upon notification particularly when the insurance is provided in-house.

Table 11. Claims Documents and Processing Period

	Claims Documents	Processing period	
		In-house	Tie-up with CIP/MBA
<i>Microinsurance</i>			
Loan/Credit life	Birth & death certificates, certification from barangay	Immediately upon notification; not more than two weeks	1 to 5 days (MBA); At least 1 week ; not more than two weeks; at least 3 months
Life term	Birth, marriage, death, barangay certificates, center endorsement	1 week; not more than two weeks	1 to 5 days (MBA); At least 1 week; not more than two weeks; at least 1 month
Medical/Health	Medical doctor’s certificate; official receipts	Immediately upon notification; not more than two weeks	not more than two weeks
Retirement	Notice of retirement		1 to 5 days (MBA)

E. Perceptions and Assessment of Microinsurance Providers

Benefits of Providing Microinsurance

Microinsurance is considered by MFIs as social security for the vulnerable sector that they are serving. To most MFIs, microinsurance eases the financial burden of death or sickness in the family of their members/clients. It addresses a need of clients such that a number of MFIs acknowledged its effectiveness as a “value-added service”, a means to encourage target clients to be members and avail of their microfinance/lending service. It is now part of a marketing strategy of an MFI in reaching out to more clients. “Clients looked for it,” according to an MFI. Another

MFI claimed that “more people were encouraged to join when they heard that the coop is offering insurance”. With microinsurance, MFIs “can give good service that could motivate the clients to be loyal to the MFI”. An MFI also recognizes that microinsurance makes them more competitive.

Some MFIs also regard microinsurance as a safety net as it covers payment of loans in case of death or total physical disability of borrower. Hence, loan repayment is assured and overall the organization is not adversely affected. MFIs also derive additional income from the provision of microinsurance whether they do it in-house or in partnership with a commercial insurance provider. Some MFIs reportedly get 10-20% commission on insurance fees. Microinsurance therefore strengthens MFI operations.

To a CIP, while microinsurance requires ‘tailor fitting’ or adopting to the culture of MFI clients, it is more profitable, compared to the regular insurance, as greater number of people are insured at smaller amounts of insurance cover although risk is also higher.

Issues/Constraints

While there are MFIs which claimed that there are no major constraining factors to their provision of microinsurance since members/clients are already “aware of the policies”, many of them admit that there are still important issues that need to be addressed to improve operations and reap the benefits that can be derived from microinsurance.

The main problem cited by MFIs constraining smooth microinsurance operations has to do with claims documentation requirements and processing period particularly by commercial insurers. Clients according to MFI informants are having a hard time producing the documents required which causes delay in claims processing and payment. Coming up with certificates required such as birth, marriage and death certificates takes time causing at least one month delay in claims payment. Processing time for bigger amounts of claims reportedly is even longer. It is a common perception therefore that there is a need to speed up claims processing. Longer claims processing prompts some MFIs to provide microinsurance services in-house. Provision of in-house microinsurance, however, is considered a major issue from a regulatory standpoint. In-house provision of insurance is considered risky inasmuch as the products provided by the MFI are not based on sound actuarial computations. This poses a risk not only to the clients contributing to the informal mutual aid fund but it also poses a risk to the MFI operations. Any shortfall in the fund would have to be covered by the MFI from its lending operations.

Inadequate or absence of MIS is also a constraint. The purpose of MIS is to generate relevant information that is organized to improve decision making, problem solving, strategic planning, monitoring, and performance evaluation. Information useful to making critical programmatic decisions depends on appropriate data gathering and processing procedures.

Related to the documentation requirement is the additional requirement of a commercial insurer in establishing the identity of the insured. This CIP cited that because of its compliance to identity regulations¹⁰¹ it is now requiring two picture identification cards from the insured, which many microinsurance clients do not ordinarily keep. This requirement adds to the burden and delay in claims processing.

Another issue raised by an MFI is with regard to limitations on product design. First cited is the lack of crop insurance or insurance against crop failure. Second, it was mentioned that the amount of benefits or insurance cover is insufficient. For example, under its accident insurance plan, the P10,000 benefit is reportedly not enough for the entire membership of a member considering that the spouse is also covered. The reimbursement under this plan is only limited for the hospital bills including medicine bought from the hospital pharmacy. (Medicine bought outside the hospital was not covered even there is a justification from the attending physician that the medicine is not available in the hospital pharmacy.)

With regard to the cost of insurance, a CIP mentioned that there are groups of clients complaining of high, unaffordable insurance premiums. This CIP would have wanted to grant ‘discounts’ to lower the cost of premiums as ‘groups’ are entitled to discounts but it is constrained from granting the privilege because these groups were found to be informal or unregistered. It would therefore be beneficial not only to provide group microinsurance but also to register these groups of clients.

Other regulation and policy-related issues that were raised during the survey but would need further examination are: (i) the effects of the ‘full deregulation’ of the industry -- an NGO MFI is concerned that this could have resulted in high insurance premiums unaffordable to many poor target; (ii) the adoption of risk-based capital ratio framework that the Insurance Commission (IC) has mandated along with the required margin of solvency and net worth which would require fresh capital infusion that insurance providers might not be able to put up. (A CIP’s plan for expansion is reportedly hindered by the said IC directive.); and (iii) how MBAs could expand service to non-members.

Underserved Areas

There seems to be a lot of areas still underserved with microinsurance particularly in the Visayas and Caraga regions or within the areas where the surveyed MFIs operate. While there are MFI respondents who consider all areas as underserved since they believe that microinsurance is a need of everyone, the following areas were commonly identified as underserved:

- remote rural areas or areas outside urban centers and cities
- areas where there are no MFIs since it is observed that most MFIs have their own microinsurance

¹⁰¹ Country Bankers, a commercial insurance provider, cited Republic Act 9160 or the Anti-Money Laundering Act (AMLA). In the Act, it was noted that Section 9 on Customer Identification that covered institutions such as insurance companies shall “*establish and record the true identity of its clients based on official documents... shall maintain a system of verifying the true identity of their clients...*”

These areas were also the same types of areas identified as underserved by those MFIs operating nationwide. In addition, the following areas are also considered underserved:

- areas where there is peace and order problem (called critical areas or election hotspots)
- Visayas relative to Luzon and Mindanao (Luzon is overserved because microfinance clients are generally more accessible while Mindanao has been the focus of many assistance and more MFIs are already covering the area)
- Autonomous Region of Muslim Mindanao (ARMM)
- Bicol Region

An indication of the willingness and capacity to serve these underserved areas can be gathered from the experience of Country Bankers Life Insurance Corporation (CBLIC), a commercial insurance provider. This was when a partner MFI wanted to provide group microinsurance to all its clients in Mindanao including in areas not covered by CBLIC. To be able to pursue a microinsurance tie-up with this MFI, CBLIC had to first assess the risk which essentially was finding out how many of the MFI's clients are in areas considered to be 'hot spots' (and it was found to be 20% of those requiring insurance). Based on this assessment, a product tailor fit for the MFI's clients was designed and priced accordingly.

Generally, MFIs would not operate in crisis afflicted areas because armed conflict kills business that would severely affect microfinance. Without microfinance there is no financial support and enabling environment for micro-insurance. The existence or even presence of insurgents in a locality is not a distressing issue for not introducing microfinance and insurance operations. What discourages them to operate in crisis afflicted areas is the great possibility of armed conflict.

Expansion Plans

Most of the MFIs indicated plans of expanding to other areas and/or strengthening their microinsurance provision through the following:

- More aggressive training of staff and clients;
- Infrastructure support in terms of building developmental training centers;
- Complementation with commercial insurers in terms of basic insurance services and reinsurance;
- Capital buildup through availment of loans and generation of insurance reserves/funds;
- Market expansion towards predominately agrarian communities thru micro-agri financing; and
- Network buildup with branching out.

The goal of the MFIs is also clear -- to provide better, more enhanced, quick service to clients and their families. The more concrete plans cited by the MFIs include:

- Strengthening of its mortuary fund
- Introduce health insurance, accident/death benefits to member's family
- Issue preferred stocks
- Reinsure current insurance
- Tie up with an MBA for life insurance coverage
- Tie up with a commercial insurance provider
- Set up own MBA

F. Policy Environment

Regulatory Institutions

The Insurance Commission (IC) is the government agency that regulates and supervises the insurance industry in accordance with the Insurance Code of 1974.¹⁰² It is tasked with maintaining the quality of management of insurance companies and ensuring adequate protection to policyholders and the public/consumers in general by way of prescribing minimum requirements on capitalization and qualifications of insurance company officers as well as the setting of risks and financial management standards. IC monitors four (4) types of insurers (based on the Insurance Code): 1) life insurance provider; 2) non-life insurance provider; 3) composite insurance provider; 4) mutual benefit associations (MBAs). Reinsurers are also permitted.

Health Maintenance Organizations (HMOs), which are not considered insurance companies, are under the supervision of the Department of Health (DOH). Since there has not been any major regulations formulated by DOH, HMOs remain largely unregulated. Meanwhile, the Philippine Health Insurance Corporation (PHIC) is a government-owned corporation mandated to achieve universal coverage with health insurance by the year 2010. Though it does not have any regulatory powers over HMOs, its ability to define standards for small community-based health care organizations gives it some influence over these grassroots health organizations.¹⁰³

While the nature of operations of pre-need companies is similar to that of insurance firms, they are not regulated by the IC. Pre-need companies are under the supervision and regulation of the Securities and Exchange Commission (SEC).¹⁰⁴

¹⁰² The Insurance Code generally requires all insurance providers, regardless of type and ownership structure, to seek a license from the Insurance Commission. Granted the sole authority to issue rules and regulations to implement the provisions of the Code and to conduct regular examination and supervision of licensed insurers is the Insurance Commission. Issuance of additional rules and regulations by the Commission is subject to the approval of the Department of Finance. The Code also specifically sets the parameters and conditions by which the Insurance Commission may grant license to entities that intend to engage in the insurance business in the Philippines. It sets guidelines, prudential rules and regulations in the operations of insurers to ensure that these entities will be able to provide the benefits due to the consumers as indicated in the insurance policy contracts. (Presidential Decree No. 612, December 18, 1974 otherwise known as the Insurance Code)

¹⁰³ Source: "A Field Study of Microinsurance in the Philippines," ILO, 2002

¹⁰⁴ Section 16 of the Securities Regulation Code provides that no person shall sell or offer for sale to the public any pre-need plan except in accordance with rules and regulations which the 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. Pursuant thereto, the SEC promulgated the New Pre-Need Rules on Registration and Sales of Pre-Need Plans last August 16, 2001.

There are, however, existing bills pending before the Congress that proposes the transfer of supervisory and regulatory powers of the SEC over the pre-need industry to the IC.

Although the organizations covered by the survey (except NGOs) are under the supervision of a government entity, only the commercial insurance provider and the MBAs are supervised and regulated by the IC. Rural Banks are supervised by the Bangko Sentral ng Pilipinas (BSP) while cooperatives are under the regulatory supervision of the Cooperatives Development Authority (CDA).

Microinsurance Regulation

On October 25, 2006, the IC issued Insurance Memorandum Circular 9-2006 can be seen as government's recognition of the growing importance of microinsurance. This IM Circular addressed to all insurance companies and mutual benefit associations (MBAs) defines what microinsurance and microinsurance products are, and specifies the governing policies and basic regulations that insurance companies particularly MBAs should observe.

An MBA wholly engaged in the business of providing microinsurance for their members is further defined as a "Microinsurance MBA" or an MBA which provides microinsurance policies to its members and has at least 5,000 member clients. In the Circular, all microinsurance MBAs are required to put up a guaranty fund of not less than P5 million by end of 2006 and every year thereafter must increase the fund by an amount equivalent to 5% of their gross premium collections until it reaches 12.5% of the required capital for domestic life insurance companies.

The Circular further states that MBAs shall be monitored and evaluated based on performance standards (which have yet to be formulated) that will cover mainly the areas of solvency and stability, efficiency, governance, understanding of the product by the client, risk management and outreach.

III. SUMMARY OF OBSERVATIONS AND ASSESSMENT

The survey lends to the following key observations:

1. Microinsurance is provided by microfinance institutions (MFIs) such as rural banks, cooperatives and non-governmental organizations, MBAs and commercial insurance companies.
2. Microinsurance products are mainly credit, life and health insurance. Other products which usually come as riders are mortuary/burial and accident insurance and retirement/savings.
3. Microinsurance services are being delivered by MFIs in-house, through partnership with an MBA or a commercial insurance provider. CIP and MBAs also partner with MFIs in providing microinsurance.

4. The outreach of MFIs' microinsurance is limited by the nature of their organization (e.g., closed membership of cooperatives and/or micro-lending is the main business) and their lack of/limited expertise in implementing microinsurance compared to MBA and CIP.
5. MFIs regard microinsurance as an effective 'value-added service' encouraging participation of more clients as well as an effective safety net against non payment of loans, death, or sickness in the family.
6. Claims documentation and processing seems to be burdensome to clients, which to some extent prompted a number of MFIs to provide microinsurance in-house. However, this (provision of in-house microinsurance) is considered too risky and a major issue from a regulatory standpoint.
7. Other issues faced by clients as perceived by microinsurance providers are limitations on available products such as crop insurance, amount of cover and cost of insurance.
8. There is a general impression that where there is an MFI, there is microinsurance. MFIs are further noted to be mostly serving the urban areas/communities. Rural areas therefore particularly those away from the cities/urban centers and crisis-stricken areas are considered underserved by microinsurance. Microinsurance providers including commercial insurers are not averse to serving these areas but it is imperative that they have sufficient information and the capacity to calculate the risks to be faced and design insurance product/s suited to clients in these areas. To find suitable microinsurance products and schemes, experimentation/pilot-testing can be done in these areas.
9. A demand analysis that is focused on the experience of clients, identifying microinsurance needs and what would be appropriate to enable poor households to have greater security would be instructive.
10. During the survey, MFIs indicated plans of expanding operations to other areas and increasing outreach by setting up their own MBA, partnering with existing MBA or a commercial insurance provider or introducing new products such as health insurance. These plans are noted to depend mainly on the providers' capacity to embark on a 'formal' provision of larger-scale microinsurance within the policy and regulatory environment that will be prevailing in the near term.
11. The basic regulatory framework on microinsurance has been set with the IC's issuance of Circular 9-2006 on Microfinance Regulation and Declaration of Policy Objectives. Microinsurance providers are expected to strengthen their capacities and gear up for the performance standards (to be) set out by the IC.

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LIST OF INSTITUTIONS VISITED AND KEY INFORMANTS

VISAYAS (11)

- 1. CEBU PEOPLE'S MULTIPURPOSE COOPERATIVE (CPMPC)**
Address: 50 Tomas Abella corner C. Padilla Streets, San Nicolas, Cebu City
Contact No(s): (032) 232-9219; (Fax)(032) 232-3221
Name of Informant(s)/Designation: Mr. Macario Quevada, General Manager
Ms Jessa Mae Amarilla, Bookkeeper
Other Contact Information: (email) jessaamarilla@mycoop.ph
- 2. CEBU CFI COMMUNITY COOPERATIVE INC.**
Address: 2nd Floor, Legislative Bldg., Capitol Compound, Cebu City
Contact No(s): (032) 253-8103; (032) 253-3614; (Fax) (032) 255-1066
Name of Informant(s)/Designation: Retired Judge Esperanza F. Garcia, Chair Person, BOD
Ophelia M. Morales, General Manager
Other Contact Information: (email) cficoop@mozcom.com
- 3. METRO ORMOC CREDIT COOPERATIVE**
Address: OCCCI Bldg., Arradaza corner Osmeña Streets, Ormoc City
Contact No(s): (053) 255-4612; (053) 561-3591; (Fax) (053) 561-1235
Name of Informant(s)/Designation: Mr. Mario Eugene C. Abenio, Assistant Manager
Other Contact Information: (email) mecabenio@yahoo.com
- 4. LAMAC MULTI-PURPOSE COOPERATIVE**
Address: Lamac Pinamungajan, Cebu
Contact No(s): (032) 516-2576; (Fax) (032) 568-9257; (032) 467-8171
Name of Informant(s)/Designation: Ms Menchu D. Dagohoy, Branch Manager
Other Contact Information: (email) lamacmpc@yahoo.com
- 5. VALIANT RURAL BANK**
Address: 50 #41 Mabini St., Iloilo City
Contact No(s): (033) 336-6396; (Fax)(033) 337-4223
Name of Informant(s)/Designation: Mr. Roger O. Escaro, Loans Officer
Other Contact Information: (email) valiantrb@rbap.org
- 6. LIFEBANK FOUNDATION**
Address: 3rd Floor, Liz Complex Bldg., National Hihgway, Brgy. Bolong Oeste, Sta. Barbara, Iloilo
Contact No(s): (033) 523-9371; (033) 523-9798; (Fax) (033) 523-9348
Name of Informant(s)/Designation: Mr. Joseph A. Perlas
Social Service Program Coordinator
Other Contact Information: (email) japerlas@lifebankfoundation.org

7. TAYTAY SA KAUSWAGAN (TSKI)

Address: Unit 2, 2nd Floor A&L Bldg., E. Lopez St., Iloilo City

Contact No(s): (033) 320-4038; (Fax) (033) 329-3628

Name of Informant(s)/Designation:

Other Contact Information: (email) tski-ho@skynet.net; (website) www.tski.org

8. NEGROS WOMEN FOR TOMORROW FOUNDATION (NWTF)

Address: 102 San Sebastian Corner Verbena Streets, Bacolod City

Contact No(s): (034) 432-371; (034) 432-3719; (Fax) (034) 433-0228

Name of Informant(s)/Designation:

Other Contact Information: (email) info@nwtf.ph

9. ST. ELIZABETH COMMUNITY DEVELOPMENT PROGRAM (SECDEP)

Address: 2/F Mary queen of the apostles Bldg., Pius XII Institute, Jaro, Iloilo City

Contact No(s): (033) 320-6700; (Fax) (033) 320-6700

Name of Informant(s)/Designation: Ms Luzviminda B. Coronado, Executive Director

Other Contact Information: (email) secdep@skynet.net

10. QUIDAN-KAISAHAN

Address: 2383 C.L. Montilebano Drive, Villamonte, Bacolod City

Contact No(s): (034) 707-3172; (034) 434-0122; (Fax) (034) 434-0122

Name of Informant(s)/Designation: Ms Evalyn Galido, Finance Officer

Mr. Allan S. Ewag, Deputy Executive

Director

Other Contact Information: (email)

pag_inc@yahoo.com/pag_inc@globelines.com.ph

11. CARD MBA

Address: 394 G/F Grace Compound, Basak, San Nicholas, Cebu City

Contact No(s): (032) 262-1425

Name of Informant(s)/Designation: Ms Lourdes E. Quilaton, Provincial Manager

Other Contact Information: (email) cardmaba_cebu070707@yahoo.com

CARAGA (8)

12. ACTIVE WOMEN'S DEVELOPMENT COOPERATIVE (AWODCO)

Address: J.C. Aquino Ave., Butuan City

13. BAUG CARP FARMERS COOPERATIVE

Address: Poblacion, Magallanes, Agusan del Norte

Contact No(s): (085) 362-1243

14. COOPERATIVE BANK OF AGUSAN DEL NORTE

Address: 850 UCCP Bldg., R. Calo Street, Butuan City

Contact No(s): (085) 342-5357

15. PEOPLE’S BANK OF CARAGA

Address: Brgy. 5, National Highway, San Francisco, Davao del Sur
Contact No(s): (085) 343-8529; (085) 830-1116; (Fax) (085) 839-1445

16. RB PLACER

Address: Poblacion, Placer, Surigao del Norte
Contact No(s): (086) 365-1767

17. GREEN BANK OF CARAGA

Address: Montilla Blvd., Butuan City, Agusan del Norte
Contact No(s): (085) 342-5879; (085) 342-2911; (Fax) (085) 815-1854

18. FOUNDATION FOR RURAL AND INDUSTRIAL EQUIPMENT FOR NATIONAL DEV’T., INC. (FRIEND)

Address: San Francisco, Agusan del Sur
Contact No(s): (085) 839-3547; (Fax) (085) 839-1445

19. STARJED MICROFINANCE COMPANY

NATIONWIDE (Metro Manila – based)

20. COUNTRY BANKERS LIFE INSURANCE CO.

Address: Country Bankers Center, 648 TM Kalaw Avenue, Ermita, Manila
Contact No(s): (02) 523-8611 to 18; (Fax) (02) 526-4311

Name of Informant(s)/Designation: Ms Millicent B. Cadorniga
Asst. Vice President, Actuarial
Ms Dolores R. Mari
Vice President/Operations Head

Other Contact Information: (email) info@cblic.com; (website)
www.countrybankers.net

APPENDIX B

MICROINSURANCE INNOVATIONS PROJECT
(Supply and Policy Environment Survey)

QUESTIONNAIRE/INFO SHEET FOR MFIS AND MICROINSURANCE PROVIDERS

Name of

MFI/Microinsurer: _____

Address:

Contact nos. Tel. _____ Fax: _____

Email address:

Name of Informant(s)/Designation:

A. Profile of the MFI/Microinsurer

1. No. of years in operation: _____

2. Location/Area(s) of operation

Region	Provinces	Municipalities (No.)	Barangays (No.)

3. No. of offices

Total No. of Offices	Branches	Extension Offices	Other (specify) _____

4. No. of employees: _____

5. *Ownership and Governance.* Who owns this institution? (Please specify type of ownership: single-proprietor, family-owned/corporation, community, etc) _____; and how is the institution governed (Board, other)? (Request organizational chart.) _____

6. Assets, Loan Portfolio, Liabilities and Networth As of _____ (In Million Pesos)

Total Assets	Loans Outstanding	Total Liabilities	Networth

7. Total number of clients: _____

8. In the case of commercial insurance companies, total no. of insured: _____ (proceed to section D of questionnaire)

B. Microinsurance Products and Services

- 9. Do you provide micro insurance services to your clients? _____ (If NO, skip to Section C.)
- 10. When did you start providing microinsurance to your clients?
- 11. What prompted you to start providing microinsurance to your clients?
- 12. What are the different types of microinsurance products you provide to your clients? (Specify the features, terms and conditions of products offered to clients. Fill out matrix.)

Type of micro insurance ^{a/}			
Start of provision (date)			
Coverage			
Benefits			
Age/Health limitations			
Premiums			
Contestability			
Documents required to claim			
Claim period (how long?)			

^{a/} Product types (micro insurance policy types): 1) MRI/credit life; 2) Term life ('funeral' benefit); 3) Health; 4) Property; 5) Other (please specify).

- 13. *Delivery Mechanism.* How are you providing microinsurance to your clients? [Please specify if MFI a) directly provides the insurance service; b) Partners with a commercial insurance company; c) Organized an MBA ; and/or d) Ties up with an existing MBA. Describe details of arrangement.]
- 14. Why did you choose this method of providing microinsurance to your clients?

- 15. *Collection Mechanism.* How are you collecting insurance premiums from your clients? Do you use the same mechanism in collecting loan repayments? ___
- 16. Do you conduct education seminars re: microinsurance to your clients? _____
- 17. How many microinsurance clients do you have at present?

- 18. What are the benefits to the MFI of providing microinsurance? _____
- 19. What are your problems in providing microinsurance to your clients? Are there policies and regulations hindering smooth microinsurance operations? _____
- 20. Among the areas/communities that you serve/reach, which do you think are underserved by microinsurance? Which are overserved? Please explain. _____

21. What are your plans in the next three years (including any plans with regard to microinsurance)? _____

C. MFI Without Microinsurance

22. What are the usual causes of non-repayment of loans among your microfinance clients?

23. Do you have problems of non-repayment due to any of the following: sickness, death in the family or any other uncertain event in the life of a client? _____

24. How do you ensure repayment of your clients' outstanding loans in cases of these events occurring?

25. How do you collect loan repayments? What mechanisms do you use in loan collection?

26. Have you heard of microinsurance? _____

27. What information do you know about microinsurance? _____

28. Is there a demand for microinsurance from your clients? If yes, what insurance coverages do they require?

29. Would you be interested to provide microinsurance to your clients?

30. What kind of delivery channel would you consider?

- a) Providing directly the insurance service
- b) Partnering with a commercial insurance company
- c) Organizing an MBA
- d) Tying up with an existing MBA

31. Which of these delivery channels would you prefer and why?

32. If any, what are your reservations in providing microinsurance to your clients?

What are your plans in the next three years?

D. COMMERCIAL INSURANCE COMPANIES

33. When did you start providing insurance to clients of microfinance services?

34. What prompted you to go into this market?

35. What are the different types of microinsurance products you provide to your clients?
(Specify the features, terms and conditions of products offered to clients. Fill out matrix.)

Type of micro insurance ^{a/}			
Start of provision (date)			
Coverage			
Benefits			
Age/Health limitations			
Premiums			
Contestability			
Documents required to claim			
Claim period (how long?)			

^{a/} Product types (micro insurance policy types): 1) MRI/credit life; 2) Term life ('funeral' benefit); 3) Health; 4) Property; 5) Other (please specify).

36. Do you provide individual or group policy? Explain how this is done. _____

37. *Collection Mechanism.* How are you collecting insurance premiums from your clients?

38. How many clients do you have at present? _____

39. How long does it take for an insured client to get his claim?

40. What are your problems in providing microinsurance to your clients? Are there policies and regulations hindering smooth operations of your microinsurance program?

41. How do your institution perceive microinsurance? How do you compare it with your regular/other insurance products? _____

42. Among the areas/communities that you serve/reach, which do you think are underserved by microinsurance? Which are overserved? Please explain. _____

43. What are your plans in the next three years (especially with regard to microinsurance)?

END – THANK YOU!