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## Developing Principles for the Regulation of Microinsurance (Philippine Case Study)

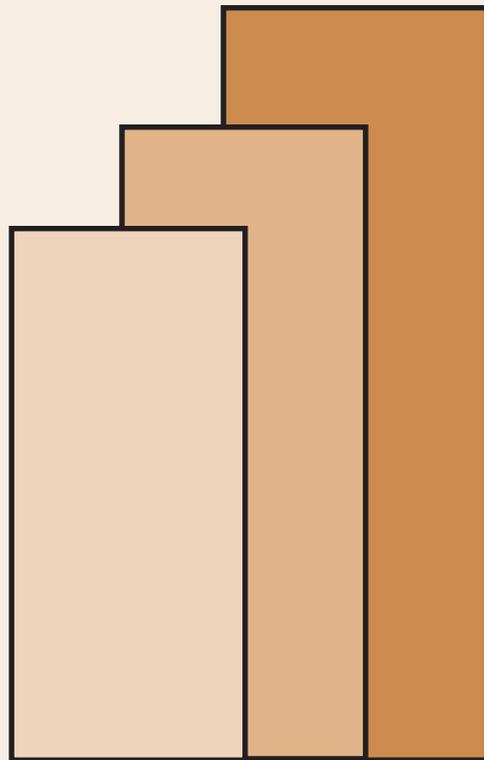
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# Developing Principles for the Regulation of Microinsurance

## Philippine Case Study

**Gilberto M. Llanto, Maria Piedad Geron and Joselito Almario, <sup>1</sup>**

### *Abstract*

Low income households find it hard to cope with the risks brought about by an illness or injury, death of a family member, man-made calamities and natural disasters. Demand for microinsurance products is growing and both formal and informal microinsurance schemes have started to emerge to address this need. This paper seeks to provide a better understanding of the micro-insurance market in the Philippines and to draw certain principles for micro-insurance regulation from a review of the Philippine experience with micro-insurance. The Philippine experience on the provision of micro-insurance services and the interaction between the insurance providers and the regulator may help inform the development of certain principles for micro-insurance regulation.

### *Key words*

*Micro-insurance, regulatory framework, mutual benefit association, Insurance Commission, risk protection, partner agent approach*

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## **1. Background/Rationale for the Study**

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

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

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

The study is organized into four sections. Section 1 describes the existing regulatory environment for insurance in general and micro-insurance in particular. It

lists and analyzes the various provisions of existing laws, circulars and policies that affect the delivery of insurance services to the poor. Section 2 then discusses the existing market for micro-insurance with specific focus on how this has evolved given the existing policy, regulatory and supervisory framework for micro-insurance services. Section 3 identifies the regulatory and the non-regulatory drivers of the micro-insurance market while Section 4 deduces some principles for micro-insurance regulation that are motivated by the Philippine experience.

The team adopted the following methodology in preparing this study: (a) review of the policy and regulatory environment for micro-insurance and (b) analysis of the emerging microinsurance market.

### **1.1. Review of the policy and regulatory environment**

Presidential Decree No. 1460 (also known as the Insurance Code of 1978) provides the legal framework for the regulation of the insurance business in the Philippines. This law and various circulars affecting microinsurance that were recently issued by the Insurance Commission were reviewed. Since cooperative societies are also allowed to provide insurance under the Cooperative Code of the Philippines, the provisions of this Code were likewise reviewed including the various insurance-related issuances of the Cooperative Development Authority (CDA)<sup>2</sup>.

The authors also conducted the following interviews:

- a. Interview of the Commissioner and personnel of the Insurance Commission regarding future plans and directions of the Commission in terms of regulating and supervising the insurance industry in general and the microinsurance sector in particular;

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<sup>2</sup> The Cooperative Development Authority is the agency of the Philippine Government that is legally mandated to regulate and supervise all cooperatives in the Philippines.

- b. Interview of key technical staff of the Insurance Commission involved in the supervision of insurance companies regarding insurance supervision and examination procedures to determine any bias against the provision of micro insurance or procedural guidelines that inhibit if not prohibit the provision of micro insurance;
- c. Interview of key technical staff of the Insurance Commission and the Cooperative Development Authority regarding issuances as well as specific activities conducted with regards to the supervision and examination of cooperative societies providing insurance services;
- d. Interview of key officials of the Insurance Commission and the Cooperative Development Authority (Board of Administrators) regarding future plans and directions in regulating the provision of insurance by cooperatives.

## **1.2. Analysis of the microinsurance market**

The micro-insurance market was analyzed by determining the different institutions and companies that are currently involved in the provision of insurance services in the country. Secondary data from the Insurance Commission as well as published reports on the insurance industry were also used to determine the status of the insurance industry in the Philippines. The information was used to determine if these institution and insurance companies are providing micro-insurance products to poor households and microenterprises.

Key informant interviews were conducted among mutual benefit associations (MBAs), which are organizations licensed to provide insurance to their members, hence, the name, as wells as microfinance institutions (MFIs) that have developed “micro-insurance” or “quasi-insurance” schemes for the risk protection of the MFIs and their clients. These “micro-insurance” or “quasi-insurance schemes are informal products designed by those MFIs to meet the risk-protection needs of their clientele.

The federations of cooperatives and cooperative societies were likewise interviewed regarding the provision of insurance their members.

The interviews and the analysis of secondary data helped the authors to identify the different micro-insurance products, both formal and informal, that have been designed for poor households and the delivery channels used to reach the target clientele.

The authors next studied the demand side by conducting focused group discussions of the current and potential clients of MBAs and MFIs that offer micro-insurance schemes. The authors also analyzed data from the market demand studies conducted by the Center for Agriculture and Rural Development (CARD) and RIMANSI Organization of the Philippines, Inc. (RIMANSI).

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

## 2. The Regulatory Environment for Insurance

### 2.1. Definition of Microinsurance

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

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

However, there are also some types of financial products such as pre-need and health plans that have guaranteed benefits but do not fall under the jurisdiction and regulation of the Code. Pre-need plans<sup>3</sup> that cover, for example, pension, education and interment plans are regulated by the Securities and Exchange Commission. 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

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<sup>3</sup> “**Pre-Need Plans**” are contracts which provide for the performance of future service/s or payment of future monetary consideration at the time of actual need, includes life, pension, education, interment, and other similar plans. The Securities and Exchange Commission regulates the pre-need sector through the Securities Regulation Code. Paid-up capital requirement for a pre-need company amounts to Pesos 100 million. There are currently 27 operating pre-need companies. There is a pending bill in the Senate transferring the pre-need sector to the regulatory ambit of the Insurance Commission.

insurance coverage and includes life, pension, education, internment and other plans which the Securities and Exchange Commission may from time to time approve."

On the other hand, health "insurance contracts"<sup>4</sup> are provided by health maintenance organizations (HMOs) that are registered with the Securities and Exchange Commission and are regulated by the Department of Health. The health maintenance organization acts as both insurer and provider of a defined package of medical services with no out-of-pocket cost since these services have been prepaid.<sup>5</sup>

Both pre-need plans and health insurance plans are technically insurance products because of they carry guaranteed benefits as stated in the contracts pre-need and health maintenance companies issue to buyers.

In 2006, the Insurance Commission launched its initiative in promoting microinsurance by officially declaring the month of January of every year as "Microinsurance Month". To kick off the initiative, the Commission issued a groundbreaking circular defining what microinsurance is and its minimum features.

In particular, Memorandum Circular No. 9-2006 characterizes microinsurance as follows:

- (1) Microinsurance is "an insurance business activity of providing specific insurance products that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune.';
- (2) The minimum features of a microinsurance policy are;

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<sup>4</sup> "**Health insurance contracts**" is a form of insurance agreement where individuals pay premiums to help cover themselves from future healthcare (such as hospitalization, medicines and professional fees) services.

<sup>5</sup> 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

- (a) The amount of premium computed on a daily basis does not exceed ten percent (10%) of the current daily minimum wage rate for non-agricultural workers in Metro Manila<sup>6</sup>; and
  - (b) The maximum amount of life insurance coverage is not more than five hundred (500) times the daily minimum wage rate for non-agricultural workers in Metro Manila (or Pesos 165,000 insurance coverage or US \$4024).<sup>7</sup>
- (3) The terms and conditions of micro-insurance policies shall have the following features:
- (a) The contract provisions can be easily understood by the insured;
  - (b) The documentation requirements are simple; and
  - (c) The manner and frequency of premium collections coincides with the cash-flow of, or otherwise not onerous for, the insured.

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

It should be noted that Memorandum Circular 2-2006 clearly paves the way for the design of both life and non-life insurance products with affordable premiums for the low income segment of the population. Maximum coverage was only defined for life insurance. By setting the maximum insurance premiums at an amount not exceeding

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<sup>6</sup> This translates to Pesos 35 (or US\$0.85) daily premium payments based on the current minimum wage rate of Pesos 350 for non-agricultural workers in Metro Manila.

<sup>7</sup> US\$4,024.00 at US\$1=Php41.00.

(\$0.85 daily or \$5.95 per week) and by requiring that micro-insurance policies should be simple and easily understandable, insurance products are made more affordable and accessible for the poor. Establishing a maximum limit for micro-insurance premium payments will provide insurance providers a benchmark in designing and creating innovative insurance products that can be affordable to the poor. Furthermore, it provides the regulator and the insurance providers a clear criterion to determine what micro-insurance is for purposes of licensing, regulation and supervision.

## 2.2. Financial Inclusion Policy and Regulation

The Philippine National Strategy for Microfinance provides the general policy principles and direction in creating the enabling environment to provide the poor greater access to microfinance services, ***including microinsurance***.<sup>8</sup> As a matter of policy and as practiced by microfinance institutions, the “poor” is determined based on the:

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

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

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<sup>8</sup> Microfinance is the provision of a broad range of financial services such as– deposits, loans, payment services, money transfers and insurance products – to the poor and low-income households, for their microenterprises and small businesses, to enable them to raise their income levels and improve their living standards. (Notes on Microfinance – BSP Circular 272, Series of 2001)

facilitate the increased participation of the private sector in microfinance in a viable and sustainable manner.

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

- Non-participation of government line agencies in the delivery of micro-finance products and services;
- Termination of directed credit programs implemented by government line agencies and their transfer to government financial institutions (GFIs), which are tasked to provide wholesale credit funds to private financial institutions that in turn will provide loans to individual borrowers at the retail level;
- Consolidation of government directed programs in the agriculture sector into one single fund for wholesale lending by GFIs;
- Use of sustainable community-based private MFIs as conduits in the delivery of micro-finance services;
- Adoption of market-based interest rates and financial and credit policies
- Promotion of savings mobilization;
- Use of the household's cash flow as basis in the design of microfinance products;
- Focus on capacity-building assistance to MFIs but to exclude seed funding, equity infusion and partnership funds from Government to MFIs;
- Liberalization of banking rules and regulations on non-collateral based lending;

- Lifting of the moratorium on the opening of new banks and branches for those engaged in microfinance; and
- Guidelines on the use of bank payments and settlements system, including e-banking activities, for microfinance. The system is widely being used by rural banks in their micro-lending activities and there is no barrier for this system to be used by insurance companies.

The financial inclusion regulations that were issued following the adoption of the National Strategy on Microfinance have proven to be effective in providing the poor greater access to financial services. In particular, it has set the tone for formal financial institutions to provide the services previously given by informal lenders. As a result, from less than a hundred in 1997, the number of MFIs (rural banks, cooperatives and NGOs) has increased to 1,410 institutions (2,118 including branches) with an outreach of 3.1 million clients.<sup>9</sup>

### **2.3. Prudential Regulation and the Insurance Code**

The framework for the regulation of the insurance business in the Philippines is provided by Presidential Decree No. 612 (also known as the Insurance Code of the Philippines) which was issued on December 18, 1974. This was amended by Presidential Decree No. 1460 (also known as the Insurance Code of 1978) which took effect on June 11, 1978. It must be noted that only insurance contracts with guaranteed benefits are covered by the Insurance Code while risk pooling arrangements (such as Damayan funds<sup>10</sup>) where benefits are not guaranteed, are not covered.

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<sup>9</sup> As of August, 2007. Microfinance Unit, National Anti-Poverty Commission (NAPC), Office of the President of the Republic of the Philippines.

<sup>10</sup> “Damayan” is a Filipino word that means “to console,” “to empathize with the other” or “to be a part of” a certain unfortunate or unforeseen event. This comes from the local practice of helping one’s neighbor who might be in great need. As a matter of practice, each individual in a Damayan Fund voluntarily pledges and contributes a certain amount to a fund that will be given to the aggrieved party who is likewise a contributor to the fund. Membership to the fund is voluntary and the benefits are not pre-determined but are contingent on the funds collected.

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

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

The major provisions of the Insurance Code are as follows:<sup>11</sup>

- Types of insurance products that a registered insurer may provide depending on the license that was applied for and granted by the Insurance Commission;
- Criteria, particularly the minimum capitalization, for the granting of the license and the documentary requirements needed for registration and licensing;
- Reserve requirements for insurance products/services rendered;
- Ownership structure of the insurer and the qualifications of persons that may engage in the insurance business;
- Qualifications for licensing of agents and brokers;
- Form, terms and conditions of a legitimate insurance or policy contract and procedures for settlement of claims and determination of unfair claims practices;
- Rules governing reinsurance transactions; and

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<sup>11</sup> Ibid

- Conditions for suspension and revocation of license, appointment of conservator, proceedings upon insolvency, and merger, consolidation and mutualization of insurance companies.

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

## **2.4. Demarcation**

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

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

The Insurance Commission classifies insurance providers into four (4) broad types of categories: 1) life insurance provider; 2) non-life insurance provider; 3) composite insurance provider<sup>12</sup>; and 4) mutual benefit associations. Except for the capitalization requirements, licensing and compliance requirements are the same for all insurance companies.

A life insurance provider may organize itself either as a stock corporation or a mutual life company<sup>13</sup>. Under Section 262 of the Insurance Code, any domestic stock

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<sup>12</sup> Entities licensed by the Insurance Commission to undertake both life and non-life insurance activities.

<sup>13</sup> A stock corporation is owned by the owners of the shares of the capital stock of the corporation while a mutual life company opens the ownership of the company to the policy holders. In a mutual life company, outstanding shares of the capital stock of the company may be acquired by the policyholders.

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

Separate provisions are applicable for Mutual Benefit Associations and for Cooperative Insurance Societies as they are both considered as non-stock, non-profit organizations. Under the Insurance Code, an MBA is “any society, association or corporation, without capital stock, formed or organized not for profit<sup>14</sup> 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. . .”<sup>15</sup> It further states that MBAs shall collect fixed and regular premiums from its members and in no case shall premium payments be collected purely from voluntary contributions and/or no fixed amount. These particular provisions help ensure that the MBAs shall be sustainable insurance institutions able to meet its obligations with regard to life insurance policy contracts with their insured members<sup>16</sup>.

On the other hand, the Cooperative Code allows cooperatives to organize themselves into a cooperative insurance society for the purpose of covering the insurance requirements of their cooperative members including their properties and assets. Cooperative insurance societies may provide its constituting members different types of insurance coverage consisting of, but not limited to, life insurance with special group coverage, loan protection, retirement plans, endowment with health and accident coverage, fire insurance, motor vehicle coverage, bonding, crop and livestock protection and equipment insurance.<sup>17</sup> Once registered with the Cooperative Development

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<sup>14</sup> Just like cooperatives, MBAs treat their profit as net surplus construed as excess of payments made by the members for the services bought by them over expenses incurred and which shall be deemed to have been returned to them as dividends or patronage refunds.

<sup>15</sup> Section 390, Insurance Code of the Philippines, as amended.

<sup>16</sup> It must be noted that MBAs are only authorized to transact life insurance business transactions.

<sup>17</sup> Chapter XV, Cooperative Code of the Philippines.

Authority, cooperative insurance societies are required to get a license from the Insurance Commission either as life or non-life insurer or as a composite insurance provider.

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

Section 117 of the Cooperative Code provides that the Insurance Code and all other laws and regulations relative to the organization and operation of an insurance company shall likewise apply to cooperative insurance entities. Although the requirements on capitalization, investments and reserves of insurance firms may be modified by the Insurance Commission upon consultation with the Cooperative Development Authority and the cooperative sector, such requirement shall not be "*less than half of those provided for under the Insurance Code and other related laws*".<sup>18</sup>

Five (5) classes of insurance are covered under the Insurance Code and these are:

1. Marine Insurance;
2. Fire Insurance;
3. Casualty;
4. Surety; and
5. Life Insurance

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<sup>18</sup> Considering this provision of the Cooperative Code and the current minimum capital requirement of Pesos 1.0 billion for a duly licensed insurance company, cooperative insurance societies will have to raise a minimum capital of Pesos 500 million in order to be licensed. This amount is four (4) times the required minimum capital requirement (Pesos 125 million) for an MBA.

The terms and features of each insurance policy, and the form and content of the policy contract require prior approval of the Insurance Commission before it can be offered to the general public.

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

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

## **2.5. Capital And Investment Requirements**

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

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

Minimum capital requirements were adjusted in 2006 to ensure that insurance companies are sufficiently capitalized to meet their obligations. On May 15, 2006, the Insurance Commission issued a memorandum circular requiring all new life and non-life insurance entities to put up a capitalization of not less than Pesos 1 billion (US \$24 million) of which at least 50 percent consists of paid up capital and the remaining amount in contributed surplus, which, should not be less than Pesos 200,000 (US \$4878) <sup>19</sup>. To provide both life and non-life insurance, capitalization requirement is doubled and should not be less than Pesos 2 billion (US \$48 million).

On the same date, the Insurance Commission also issued a memorandum circular requiring all new MBAs and all MBAs seeking rehabilitation to put up at least Pesos 125 million (US \$3 million) guaranty fund.<sup>20</sup> Existing mutual benefit association shall put up a guaranty fund not lower than Pesos 12.5 million pesos (US \$304 thousand) by December 31, 2006.<sup>21</sup>

Under Memorandum Circular 9-2006, the Insurance Commission reduced the guaranty fund for new and existing MBAs *wholly engaged in providing microinsurance* from Pesos 125 million (US \$3 million) to Pesos 5.0 million (US \$12 thousand).<sup>22</sup> This will only apply to an MBA recognized as a “Microinsurance MBA.” An MBA can be recognized as a microinsurance MBA if the following conditions are met:

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

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<sup>19</sup> All life and non-life insurance companies under conservation or receivership or for liquidation may be rehabilitated if the company met the capitalization requirement of P1 billion of which at least 50 percent consists of paid up capital and the remaining amount in contributed surplus which, should not be less than P200 million. This memorandum circular specifically states July 1, 2006 as the effectivity date.

<sup>20</sup> As provided for in the Code, this is equivalent to 25 percent of the minimum paid in capital for commercial insurance company.

<sup>21</sup> Prior to the issuance of the IC Memorandum Circular, the guaranty fund requirement for MBA is only Php 10,000 or US\$244 equivalent.

<sup>22</sup> It is important to note that the reduction in the minimum capital requirement will only apply to MBAs that are 100% engaged in the delivery of microinsurance products and services as defined under the Circular. MBAs that will provide additional insurance products other than “microinsurance” are required higher minimum capital requirements as set under IC Circular No. 2-2006. (what are these requirements? The requirement referred here are the Php 125 million guaranty fund requirement for new MBAs and Php 12.5 million for existing MBAs. Not all MBAs are only providing microinsurance).

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 shall reach Pesos 125 million (US \$3million) or twelve and a half percent (12.5%) of the required capital for domestic life insurance companies.

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

**Table 1. CAPITALIZATION REQUIREMENTS**

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

Aside from the minimum capital requirements, statutory reserve requirements are specifically provided for under the Insurance Code. In the case of life insurance companies, the statutory reserve requirement is based on the net valuation of all its

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

To determine the financial condition of any insurance company (including MBAs) doing business in the Philippines, assets allowed and admitted as assets owned by the insurance company concerned are limited to:

1. Cash in the possession of the insurance company or in transit under its control, and the true and duly verified balance of any deposit of such company in a financially sound commercial bank or trust company.
2. Investments in securities, including money market instruments, and in real property acquired or held in accordance with and subject to the applicable provisions of this Code and the income realized therefrom or accrued thereon.
3. Loans granted by the insurance company concerned to the extent of that portion thereof adequately secured by non-speculative assets with readily realizable values in accordance with and subject to the limitations imposed by applicable provisions of this Code.
4. Policy loans and other policy assets and liens on policies, contracts or certificates of a life insurance company, in an amount not exceeding legal reserves and other policy liabilities carried on each individual life insurance policy, contract or certificate.

5. The net amount of uncollected and deferred premiums and annuity considerations in the case of a life insurance company which carries the full mean tabular reserve liability.
6. Reinsurance recoverable by the ceding insurer:
  - (a) from an insurer authorized to transact business in this country, the full amount thereof; or
  - (b) from an insurer not authorized in this country, in an amount not exceeding the liabilities carried by the ceding insurer for amounts withheld under a reinsurance treaty with such unauthorized insurer as security for the payment of obligations thereunder if such funds are held subject to withdrawal by, and under the control of, the ceding insurer. The Commissioner may prescribe the conditions under which a ceding insurer may be allowed credit, as an asset or as a deduction from loss and unearned premium reserves, for reinsurance recoverable from an insurer not authorized in this country but which presents satisfactory evidence that it meets the applicable standards of solvency required in this country.
7. Funds withheld by a ceding insurer under a reinsurance treaty, provided reserves for unpaid losses and unearned premiums are adequately provided.
8. Deposits or amounts recoverable from underwriting associations, syndicates and reinsurance funds, or from any suspended banking institution, to the extent deemed by the Commissioner to be available for the payment of losses and claims and values to be determined by him.
9. Electronic data processing machines, as may be authorized by the Commissioner to be acquired by the insurance company concerned, the acquisition cost of which to be amortized in equal annual amounts within a period of five years from the date of acquisition thereof.
10. Other assets, not inconsistent with the provisions of paragraphs 1 to 9 hereof, which are deemed by the Commissioner to be readily realizable and

available for the payment of losses and claims at values to be determined by him.

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

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

In general, tiering of compliance requirements is evident only to the application of the minimum capital requirements, which depends on the type of license and insurance

provider. For example, commercial insurance providers are required higher capitalization requirements compared to that required of MBAs. On the other hand, MBAs wholly providing micro-insurance products have lower capital requirements.

## **2.6. Product Regulation**

The nature, content and minimum terms of various insurance policies are spelled out in the Code. Section 51 of the Insurance Code specifies that every insurance policy must at the minimum contain the following:

- (a) The parties between whom the contract is made
- (b) The amount to be insured except in cases of open or running policies;
- (c) The premium; if the insurance is of a character where the exact premium is only determinable upon the termination of the contract, a statement of the basis and rates upon which the final premium is to be determined;
- (d) The property or life insured
- (e) The interest of the insured in property insured, if he is not the absolute owner thereof;
- (f) The risks insured against; and
- (g) The contract period during which the insurance remains in effect

In addition, separate and distinct minimum requirements are identified in the case of policies for individual life or endowment; group life and industrial life insurance policies. Disclosure requirements also include the applicable grace period, incontestability clause, options in case of default in premium payments, and conditions for reinstatement of policy.

It must be noted that the characteristics of micro-insurance as defined by the Insurance Commission have similar features as an industrial life insurance. The Insurance Code defines industrial life insurance as a 'form of life insurance under which

the premiums are payable either monthly or oftener, if the face amount of insurance provided in any policy is not more than five hundred times that of the current statutory minimum daily wage in the City of Manila". These features are similar to the features of "micro-insurance" as illustrated in the IC Circular.

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

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

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

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

## **2.7. Market Conduct Regulation**

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

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

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

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

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

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

In addition to the use of insurance agents and brokers in marketing their products, insurance companies may sell their products and services through electronic means such as via cell phones. Payment transfers and remittance agents are covered by regulations of the Bangko Sentral ng Pilipinas and these may be tapped in the distribution of insurance products to a wider market with a lesser cost. There are some companies like Philam, an insurance company, that sell their insurance products via cell phone technology. However, if the sum insured is quite big, payments via cellular phone technology may not be applicable but this is not considered a hindrance in the case of micro-insurance products.

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

Section 242 provides that the proceeds of a life insurance policy shall be paid immediately upon maturity of the policy, unless such proceeds are made payable in installments or as an annuity, in which case the installments, or annuities shall be paid

as they become due. In the case of a policy maturing by the death of the insured, the proceeds shall be paid within sixty days after presentation of the claim and filing of the proof of the death of the insured.

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

To protect the consumer against any illegal acts, the Insurance Commission has the authority to adjudicate claims and complaints involving any loss, damage or liability for which an insurer may be answerable under any kind of policy or contract of insurance. This is quite important for micro-insurance clients since it clearly identifies a venue wherein complaints may be lodged without going through a costly, protracted and lengthy litigation process through the courts of law.

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

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

## **Institutional and Corporate Governance Regulation**

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

In addition, the Insurance Code and the current rules and regulations issued by the Insurance Commission generally provide minimum requirements for transparency and disclosure of information regarding insurance policy contracts in order to define the responsibility of the insurer and protect the interests and rights of the insured.

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

The Code of Governance defines the role of the board, the chairman and the non-executive directors and includes a more rigorous procedure for the appointment of directors and the formal evaluation of the performance of the board and individual directors. To monitor compliance, it includes a Self-Assessment Questionnaire on the observance of the different principles of good governance for submission to the Insurance Commission within one (1) month after each semester. This will effectively ensure that even micro-insurance MBAs will be guided by good management principles in the conduct of their micro-insurance operations.

Standardization of the chart of accounts for life insurance companies and MBAs has been instituted. It prescribes the adoption of accounts aligned with the Philippine Financial Reporting Standards (PFRS) and the international accounting standards. With the standardization, it would now be possible to assess and monitor the financial performance of 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.

During the last five (5) years, there was only one life insurance company that closed its operation. There are however foreign companies that sold their insurance portfolio business to local companies such as the Berkley to Phil Prudential Life and the Manila Bankers Life to Paramount Insurance. With respect to MBAs, there were two associations that liquidated their operations and at present, three are under conservatorship.

## 2.8. Other Relevant Statutory Requirements

### 2.8.1. Taxation

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

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

In the case of income tax, MBAs and cooperatives are exempted from the payment of tax on net income derived from its operations. Although this indicates an uneven level playing field with commercial insurance providers, it is however considered reasonable as any surplus fund realized by these entities is plowed back to their owner-

members. The expected reduction of the income tax in 2009 will decrease the disparity and will boost further private sector investments in the insurance industry.

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

### **2.8.2. Anti-Money Laundering Regulations**

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

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

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

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

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

For policy holders with personal accident and health policies, credit life and term products, customer information are already provided in the application form for underwriting purposes, and throughout the life of the policy, confirmation **and verification** of the policyholder and beneficiary are made for purposes of policy maintenance, persistency, claim verification and any policy transaction after policy

issue. Hence, the insurer is not required to duplicate this verification effort in complying with the KYC requirements.

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

### **2.8.3. Electronic Payments**

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

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

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

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

## **2.9. Regulatory Approach**

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

Some types "insurance products" such as pre-need and health plans however do not fall under the jurisdiction and regulation of the Insurance Commission. Pre-need plans that cover, for example, pension, education and interment plans, are regulated by the Securities and Exchange Commission. On the other hand, the operations of health maintenance organizations and their products and services are regulated by the Department of Health.

### 3. The Insurance Industry in the Philippines

#### 3.1. Overall Industry Performance

In general, Philippine households spend only a measly percentage of their income on insurance. In 2005, per capita expenditure on insurance was reported to be only less than a thousand pesos (Php 750.70 or US \$ 18). Three-fourths of this amount was used to buy life insurance while the remaining one-fourth was used to buy non-life insurance products. This shows the overall preference of households for life and non-life insurance. Estimated life insurance coverage (percentage of population with life insurance) as of 2005 was only about 13.1 percent (**Table 2**).

Insurance penetration and density are common measures of the level of insurance provision and uptake in a country, albeit imperfect ones. Insurance penetration is defined as the total premiums divided by GDP. It measures the importance of insurance activity relative to the size of the economy; hence it can be a rough indicator of growth potential. Insurance density is defined as the amount of premiums per capita. It corresponds to the average amount spent on insurance by each person and signifies the current state of the industry. Insurance penetration in the Philippines was slightly more than 1 percent from 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.

**Table 2**  
**Insurance Development in the Philippines<sup>23</sup>**

ECONOMIC AND INSURANCE DEVELOPMENT DATA	2001	2002	2003	2004	2005
<b>INSURANCE DEVELOPMENT</b> (Private Companies Only)					
<b>Per capita expenditure ( P )</b>	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	192.9	199.9
Life sum insured as % of G D P	42.16%	41.94%	47.48%	38.66%	27.43%
G N P	39.49%	39.36%	44.25%	35.88%	25.29%
Premiums (Life & Non-Life)					
as % of G D P	1.14%	1.25%	1.25%	0.92%	1.16%
G N P	1.07%	1.17%	1.16%	0.85%	1.07%
Gross value added on insurance	32,229	35,567	39,682	45,699r	47,448p
<b>ESTIMATED LIFE INSURANCE COVERAGE</b>	12.80%	13.65%	18.31%	13.11%	13.01%

The Insurance Code of the Philippines identifies four types of insurers, these are: life insurance providers, non-life insurance providers, composite providers and mutual benefit associations. As of December 2005, the Philippine insurance industry is composed of 132 insurance companies (3 composites, 33 life, 94 non-life and 2 reinsurance companies) and 18 mutual benefit associations (**Table 3**).

**Table 3**  
**Companies Authorized to Transact Insurance Business**  
**In the Philippines, As of December, 2005**

Classification of Company	Direct Insurers			Professional Reinsurers	TOTAL
	Composite	Life	Non-Life		
A. Domestic	2	25	84	2	113
B. Foreign					
Domestically Incorporated	1	7	5	-	13
Branch	-	1	5	-	6
<b>Total</b>	<b>3</b>	<b>33</b>	<b>94</b>	<b>2</b>	<b>132</b>

Source: Annual Insurance Report, 2005  
Insurance Commission

<sup>23</sup> Annual Insurance Report, 2005

In 2005, the insurance industry posted only a 7% growth in combined life and non-life insurers' net premiums. The life and non-life sectors realized a net premium growth of only 6.6% and 5.9%, respectively, over 2004 levels. This is comparatively lower than the almost 10% growth in net premiums from 2003 to 2004. As indicated in the previous section, this translates to only a little over one percent of the country's gross domestic product indicating a low volume of insurance activity in the whole economy. Table 4 shows industry growth indicators.

**Table 4. Industry growth indicators, 2004-2005**

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

Source: Insurance Commission Annual Report, 2005

### **3.2. Microinsurance**

The previous discussion provided an overview of the status of the insurance industry in the Philippines highlighting the low volume of insurance business in the country. The information, however, only includes insurance business provided by formal insurance institutions that are licensed and regulated by the Insurance Commission. This does not include the non-licensed insurance schemes provided by various types of institutions on an informal basis.

Micro-insurance is about providing insurance coverage to poor households<sup>24</sup> that have been largely excluded from coverage by commercial insurance providers. These include individuals who are ignored by traditional commercial and social insurance schemes, typically from low-income households, who work in the informal economy, have irregular cash flows (Churchill 2006), and have seasonal fluctuations in earning capacity.

As discussed in the previous section, the Insurance Commission of the Philippines defines micro-insurance as follows<sup>25</sup>:

- *The term “microinsurance” shall refer to the insurance business activity of providing specific insurance products that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune.*
- *A “microinsurance product” is an insurance policy whereby the monthly premium does not exceed Pesos 1,050 (US\$ 24.42 )<sup>26</sup> and the maximum amount of life insurance coverage is not more than Pesos 175,000 (US\$ 4,070).*

As observed by Llanto, Almario and Gamboa (2006) traditional insurance products offered by the majority of the Philippine commercial insurance companies are designed with the middle- and high-income classes in mind. This mindset has excluded low-income households due to supply-side and demand-side constraints<sup>27</sup>. Recent

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<sup>24</sup> As discussed in the regulatory section, in the Philippines, the poor is officially defined in Republic Act 8425, otherwise known as the Social Reform and Poverty Alleviation Act, dated 11 December 1997. The poor refer to individuals and families whose incomes fall below the poverty threshold as defined by the government and/or those that cannot afford in a sustained manner to provide their basic needs of food, health, education, housing and other amenities of life. In 2006, annual per capita poverty threshold in the Philippines was posted at Pesos 14, 906 (\$298 at P50 per \$1). Most MFIs, however, employ various tests to determine whether a potential client is poor or not.

<sup>25</sup> 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.

<sup>26</sup> Exchange rate: US\$ 1 = Php 43 as of November 2007.

<sup>27</sup> Demand for commercial insurance include an understanding of, perceptions and attitude toward insurance; risk management substitutes (product-demand match); affordability (cost of coverage and payment mechanisms); poverty level (purchasing power); frequency of risk occurrence; and institutional rigidities. On the other hand, traditional commercial insurers are sometimes constrained to offer insurance services to the poor due to existing barriers to entry such as high transactions cost, costs related to asymmetric information and uncertainty, actuarial difficulties, aggregate risks, lack of information, and a restrictive regulatory environment. In addition, a large capital requirement is needed to put up an insurance entity.

government policy thrusts to establish a viable and sustainable microfinance market through an appropriate policy and regulatory environment has spurred the interests of the private sector in providing the needed financial services to the poor. These include, among other things, the design of insurance policies and products that cater to the insurance demands of the low income households.

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

### **3.2.1. Demand for microinsurance**

***The existing and potential clients of microinsurance mostly come from the informal sector, which represents roughly half to three-fourths of the Philippine economy's labor force***<sup>28</sup>. According to the ILO, the informal economy generated 76.3 per cent of employment in the Philippines in 2005<sup>29</sup>.

The micro and small enterprises, constituting the majority of all business establishments, are the biggest employment generators in the economy. In response to fierce competition in global markets, the formal sector has been subcontracting most of their production and service requirements to small enterprises that pay relatively low wages. Those micro and small enterprises in the informal sector provide the output and employment opportunities to a vast number of poor households. The informal sector is weakly monitored given a weak labor inspectorate (820,000 establishments inspected

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<sup>28</sup> An estimate given by RIMANSI puts the micro-insurance coverage at around 3% of the current market for insurance, mostly provided by the mutual benefit associations (MBAs). Current market means the total number of households that are potential clients of micro-insurance.

<sup>29</sup> International Labor Organization Quarterly Newsletter, "Decent Work For All", Vol. 5 Issue 2 July 2007

by 250 labor inspectors on average). The Asian financial crisis and a general weakening of the economy have contributed to more informal economic transactions in the market. The large informal sector is exposed to various risks and unfortunately responsive social protection services for many small and microentrepreneurs and wage earners in the sector are not available (Llanto 2007).

A market survey conducted by Risk Management Solutions, Inc., (RIMANSI) in June 2002 among 527 families in 17 cities/towns in Southern Tagalog and Bicol regions indicated that 54 percent of the families were covered by insurance of which 39 percent have on-going insurance policies, while 15 percent have previously bought policies but stopped buying. The survey also observed that there exists a huge demand for insurance as evidenced by 73% of the respondents who have expressed interest in the microinsurance products of CARD-MBA<sup>30</sup>. There are no known market demand studies available but interviews with MFIs and MBAs indicate that there exists a huge gap between demand and actual coverage of insurance among their clientele.

***The need for microinsurance and its benefits are recognized among the poor, however, affordability is a major concern.*** Focus group discussions (Table 5) conducted by the authors with potential and existing clients of microinsurance, indicated that 50% to 70% of their total income is spent on food and on the education of children (see Table 5 for the profile of respondents). Very few are able to realize some surplus or savings, with amounts ranging from only about 3% to 10% of income. Most of those interviewed neither avail nor plan to avail of any insurance product. They, however, consider illness and sickness in the family to have very serious financial impact on them and thus, express great interest in some form of risk protection. Those indicating significant interest in purchasing insurance products underscored affordability as a major concern. They emphasized that the price of insurance should be within their paying capacity. They indicated a premium of Pesos 20-30 (US\$0.46-0.71) a week as affordable. Llanto et al states that "...foremost in their (that is, poor households' minds

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<sup>30</sup> Llanto, Almario and Gamboa, Micro- Insurance: Issues, Challenges and Policy Reforms

is the affordability of insurance. By affordability, we mean the size of the insurance premium and the burden of making regular payments. Simply put, the poor cannot access insurance provided by commercial insurers even if they have the demand for it because the irregularity of their meager income flows cannot ensure timely payments of the expensive insurance products. Uncertain cash flows inhibit demand for insurance...”

**Table 5**  
**Profile of Participants during the Focus Group Discussions**

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

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

schemes such as “damayan” fund.<sup>31</sup> In a damayan fund arrangement, each member of a community of group agrees to contribute a specified amount of money for the burial expenses and related expenses of a departed.

***Among low-income households, there is some form of reluctance to purchase insurance products either because of mistrust on insurance companies or a negative image of insurance.*** Many of those the authors consulted in focused group discussions do not want to avail of any type of insurance products due to past bad experiences with a big commercial insurance provider.<sup>32</sup> Memories of a big insurance provider closing down without any form of compensation offered to policyholders are still fresh in their minds. Because of previous bad experiences with insurance, clients would rather save, borrow, sell assets or cut household expenditures to meet the financial requirements of unforeseen risky events. More recently, some pre-need companies failed to meet their obligations when these became due leaving owners of pre-need plans without any alternative except to wait for the rehabilitation of those companies or accept whatever measly amounts that those companies were able to offer. These pre-need companies were those offering pre-need educational plans with a promise to pay the full and actual amount of tuition and matriculation fees in college in some future time. These companies failed to anticipate the onset of the Asian financial crisis, which brought them financial losses, the liberalization of tuition fees, which allowed universities and colleges to set market-determined fees. Thus, when the time came for these pre-need companies to comply with their promises, they miserably failed to deliver.

As discussed in the regulatory section of the paper, pre-need companies are not within the jurisdiction of the Insurance Commission, hence the policies and products they sell did not pass any actuarial review of the Insurance Commission. The

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<sup>31</sup> Please refer to footnote no. 9 for the definition of “damayan” fund

<sup>32</sup> As early as 1978, the Insurance Code allowed insurance companies to sell an industrial life insurance product which are simple, has low premiums and caters to the low income households. Most of the insured paid to agents who run away with the premium payments without remitting the payments to the insurance companies.

investments made by these companies and their financial performance have not been subjected either to examination by a third party. Many poor households do not make the distinction or do not understand the difference between an insurance and a pre-need company. Since both the pre-need plan and insurance policies offer guaranteed payment of benefits to be availed of by the buyer at some future time, there seems to be confusion among clients who think that both products are one and the same<sup>33</sup>.

***Other potential clients do not have insurance nor intend to buy insurance because they are not aware of nor do they understand the benefits of insurance products.*** A number of participants in the focused group discussions said that they have never been offered any insurance policy all their life and that they have never had any explanation or introduction to insurance. Hence, they do not understand the importance and benefits of insurance. These individuals also look at premium payments as an additional and unnecessary expense.

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

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<sup>33</sup> In the Philippines, insurance activity is regulated and supervised by the Insurance Commission while pre-need plans are not under any regulatory entity. Pre-need companies are only required to register with the Securities and Exchange Commission.

***There is an expression of a strong demand for micro-insurance among poor households in areas where the major microfinance institutions operate.***

Some microfinance institutions (NGOs, rural banks and cooperatives) have made it compulsory for their borrowers to have some form of credit-life insurance or loan protection insurance. Members of these organizations would normally have life insurance coverage as well either from commercial providers or from some in-house informal insurance scheme. MFIs also provide those poor households the necessary awareness of and education in insurance. As a result, most MFI clients are knowledgeable and convinced of the benefits of having an insurance coverage compared to those who do not have any relationship with an MFI. For instance, some MFI clients who used to be reluctant about having insurance coverage were easily convinced when insurance products were introduced by the MFIs. Their borrower-lender relationship with the MFI paved the way for clients to easily accept and recognize the benefits and importance of having an insurance coverage.

### ***3.2.2. Supply of Microinsurance***

***In the Philippines, microinsurance is provided by both formal and informal sources.*** Formal providers are those institutions that have the necessary license from the Insurance Commission while informal providers are those institutions that may or may not be legally registered and do not have any license to sell insurance policies from the Insurance Commission.

***Formal providers of insurance in the Philippines are comprised of commercial insurance companies, mutual benefit associations and cooperative insurance societies.*** Commercial insurance companies are companies registered with the Securities and Exchange Commission (SEC) under the Corporation Code. These companies are regulated by the Insurance Commission. Insurance companies should meet the minimum capital requirements prescribed by the Insurance Commission and must obtain a certificate of authority from the Insurance Commissioner

prior to operation<sup>34</sup>. At present there are 37 life insurance companies, and 94 non-life insurance companies in the country. Of the 37 life insurance companies, only 9 are offering variable life products<sup>35</sup>.

While there are 37 life insurance companies in the country, very few offer microinsurance products<sup>36</sup> (e.g. CountryBankers, Philam Life, CLIMBS). Most of these insurance companies use MFIs (that is, NGOs, rural banks and cooperatives) as partners in the provision of microinsurance products using various distribution modes (discussed in the latter sections. This is called the “partner agent” approach in the Philippines.

Microinsurance is also provided through Mutual Benefit Associations (MBAs). As defined by the Insurance Code, and as discussed in section 2 of the paper, MBAs are entities (that is, any society, association or corporation) organized for the following purpose: i) paying sickness benefits to its members; ii.) providing financial support to members out of employment and iii.) paying relatives of deceased members a pre-agreed amount of money. One has to be a member of the MBA regularly paying a fixed amount of contribution to be able to avail of the benefits. MBAs are being organized by various types of institutions and associations since the enactment of the Insurance Code. For instance, the Armed Forces of the Philippines have organized an MBA for all the members of the armed forces to address the risk protection needs of soldiers and

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<sup>34</sup> Requirements for getting an insurance license are discussed in section 3 where all the regulatory requirements are presented.

<sup>35</sup> Variable life insurance products combine features of insurance and securities investments. Section 232.3 of the Insurance Code of the Philippines states that “...The term “*variable contract*” shall mean any policy or contract on either a group or on an individual basis issued by an insurance company providing for benefits or other contractual payments or values thereunder to vary so as to reflect investment results of any segregated portfolio of investments or of a designated separate account in which amounts received in connection with such contracts shall have been placed and accounted for separately and apart from other investments and accounts.”

<sup>36</sup> Microinsurance is used here as defined in IC Circular 9-2006.

officers<sup>37</sup>. This AFP-MBAI has been in existence since \_\_\_\_\_. Public School Teachers have also organized the Philippine Public School Teachers Association (PPSTA) which provides for the risk protection needs of public school teachers. At present, there are 18 licensed MBAs in the country. Six of which are recognized as microinsurance MBAs that are solely engaged in the provision of microinsurance to their members.

Given the form and structure of the MBA, a number of MFIs who implement informal microinsurance schemes are increasingly becoming interested in using this approach to providing microinsurance to their members. MFIs find it easier to convince clients to join an MBA to provide for their risk protection needs inasmuch as the clients are already familiar with their group members. Most of these MBAs are provided technical assistance by RIMANSI (**Table 5**). These microinsurance MBAs are considered distinct and separate entities from the MFI. Each MBA has a separate Board of Trustees and is professionally run by a manager.

Table 5 – MBAs assisted by RIMANSI\*

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

<sup>37</sup> In view of the risks faced by soldiers and police, most insurance companies would not insure these individuals engaged in this type of occupation. Hence, the Armed Forces of the Philippines MBA was organized to cover the risk protection needs of soldiers and officers.

MBA	Status of MBA license	No. of members	Types of products	Operational areas
Center for Community Transformation - 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	28,000	LIFE Insurance	Northern Luzon
Agricultural and Rural Development for Catanduanes, Inc (ARDCI)	Was not recommended for licensing	23,000 as of June 2006	None	Catanduanes, Albay, Sorsogon and Camarines Sur
People's Bank of CARAGA	Market research stage	40,000	LIFE Insurance	CARAGA Region

*\*Partner update as of 30 August 2007, with FICCO licensed this November*

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

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

The third approach to provide microinsurance is through cooperative societies. Under the Cooperative Code, cooperatives are allowed to operate Cooperative Insurance Societies. There is a wide belief that many cooperatives implement in-house "insurance" schemes but the Cooperative Development Authority (CDA), regulator of cooperatives do not have an accurate registry of operating cooperatives, much less

those providing in-house “insurance” schemes. According to CDA, there are at least 70,000 registered cooperatives in the country, of which only around 22,000 are actually operating. Of these, CDA further estimates that at least half or 11,000 are offering in-house “insurance” schemes<sup>38</sup>. An example of an informal microinsurance product provided by a cooperative is shown in **Box 1**. Cebu CFI Community Cooperative provides members a health insurance product that is not regulated by any government agency. It does not seem to be the typical informal insurance provider because it appears to have a well-run and well-funded health insurance scheme.

**Box 1. CEBU CFI Community Cooperative “Health Insurance”**

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

Health care package 1

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

Health care package 2

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

Health care package 3

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

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

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<sup>38</sup> This may be an overestimate because nobody really knows the exact number. What is sure is that many cooperatives have mutual aid funds, called locally as “damayan” funds, which are not insurance products.

**Microinsurance products or insurance-like products are also provided on an informal basis through mutual fund-schemes.** Mutual fund schemes are in-house insurance schemes usually offered by microfinance institutions such as microfinance NGOs and cooperatives<sup>39</sup>. Unlike the *damayan* fund, under this scheme, each member contributes a pre-determined amount to the fund on a regular basis. Members are assured of a guaranteed amount of benefits should a risk event occur. These mutual fund schemes are not licensed nor approved by the Insurance Commission. The products they offer have not benefited from any actuarial computations and review. **Box 3** shows an example of an informal mutual fund scheme.

**Box 3. An Example of an Informal Mutual Fund Scheme  
First Integrated Community Cooperative (FICCO)  
Cagayan de Oro City, Mindanao**

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

- i.) be an active member of the cooperative
- ii.) have a minimum share capital of Pesos 3,000
- iii.) have a minimum Pesos 500 savings deposit and
- iv.) pay an annual contribution of Pesos 120.

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

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

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

Based on data provided by RIMANSI, MFIs and even transport associations provide informal mutual fund schemes or “customized” microinsurance (insurance type product that caters to the specific demand of clients). Most of these schemes are provided by institutions with a membership base of less than 3,000 and 60% had assets

<sup>39</sup> Rural banks do not engage in the provision of informal insurance schemes inasmuch as this is explicitly prohibited by the Bangko Sentral ng Pilipinas. Only banks licensed as universal banks are allowed to provide insurance services.

of less than Pesos 300,000. The design of these schemes are not based on any actuarial computation and neither do these organizations follow or use sound actuarial principles. Despite this weakness, these organizations continue to offer microinsurance products because of very strong demand from their clients, who do not have an alternative because commercial insurance providers have traditionally ignored the informal sector.

Most MFIs (especially cooperatives and NGOs) providing informal and in-house microinsurance schemes do not seem to be aware of the requirement of the Insurance Code that conducting an insurance business needs a license from the Insurance Commission. In 2007, the Insurance Commission conducted a series of roadshows on microinsurance disseminating information regarding the requirements of the Insurance Code on the provision of insurance products. After being informed of the requirements, some MFIs got interested in organizing MBAs so that the microinsurance products they will offer their clients will be within the jurisdiction of the Insurance Commission. Others have decided to partner with established commercial insurance companies to provide their members formal insurance products instead of continuing with their in-house informal schemes after learning about the requirements of the Insurance Code (more detailed discussion on these partnerships in the distribution section of the paper).

### **3.2.3. Distribution**

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

***Commercial insurance companies tie up or partner with an MFI in providing microinsurance.*** In this model, a commercial insurance company ties up with an MFI and provides the insurance needs of the MFI clients. With the partnership, the commercial insurance company provides group insurance policy to the clients of the MFI. Under the arrangement, the mother insurance policy is with the MFI. Each of the insured microfinance clients is given a certificate indicating the insurance coverage. Examples of commercial companies employing this type of arrangement are PhilamLife, Mercantile, SunLife (Canada) and Country Bankers Life Insurance Corporation. Most of these companies, however, provide credit life insurance for the MFI clients. For instance, Country Bankers covers 600,000 customers for credit life.

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

Since microinsurance requires low premiums, commercial companies offering microinsurance partner with microfinance institutions to be able to get the volume of members needed to cover the cost of providing microinsurance. MFIs who have partnered with commercial insurance providers, on the other hand, think that this is an efficient approach in facilitating insurance coverage for their clients. MFIs believe that under this approach, they can focus on their core competence, that is, the provision of savings and credit products to clients. The partnership also enables them to earn commissions or fees paid out from premiums collected by the commercial insurance providers upon issuance of insurance policies to their members (either as group policy or as individual policy underwritten by an agent of an insurance company). MFIs rely on their well-developed loan collection mechanisms to ensure the collection of microinsurance premiums and facilitation of claims made by members.

According to microinsurance expert John Wipf, this approach has several advantages<sup>40</sup>. The established commercial insurance providers have the management and financial capacity to provide efficient service to microinsurance clients. As well, clients could also possibly benefit from the wide range of financial products and services available with large commercial insurance providers. However, there are also disadvantages. There are high transaction costs arising from tedious documentation requirements, numerous policy exclusions, inflexible premium financing and delayed claims payment. For instance, CARD was prompted to organize an MBA owned by its clients due to the lack of a good fit between the type of insurance product demanded by CARD clients and the products available with commercial insurance providers. Delays in claims payment from a commercial insurance company also prompted them to organize an MBA. At present, CARD MBA operates as a licensed insurance company.

***Commercial insurance providers partner with microfinance institutions to be able to provide low-premium insurance policy.*** Due to the cost associated with the provision of life insurance policies (cost of operation, broker's/agent fees and taxes), commercial insurance companies are generally reluctant to cater to the low-income market. They find it difficult to design and offer insurance products that have low premium payments that are affordable to the poor. One commercial company reported that they are only able to offer microinsurance products with affordable premiums for the poor if they tie up with an MFI since the latter is able to generate the required volume of business. The total number of potential clients from an MFI that would buy the microinsurance product enables them to come up with low-cost insurance policy<sup>41</sup>. John Wipf estimates the distribution costs of commercial insurance providers at 25% to 35% of premiums and commissions. This contrasts with the low distribution costs of a mutual benefit association that is estimated at around 17%<sup>42</sup>.

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<sup>40</sup> Conversation with John Wipf, December 2007.

<sup>41</sup> Country Bankers Life Insurance Corporation designed a microinsurance product for the microfinance clients of one MFI, Vision Bank. During interview, the officers of the company mentioned that they were only able to offer the microinsurance product due to the volume of business that was offered to them by the requesting MFI.

<sup>42</sup> Conversation with John Wipf, December 2007..

***Commercial insurance companies entering into partnership arrangements with MFIs employ several variations.*** The following arrangements are currently being practiced by a few commercial insurance companies in facilitating the provision of microinsurance to clients of MFIs: i) partnership wherein an MFI purchase a group insurance policy from a commercial insurance company; ii) partnership wherein an agent of an insurance company is assigned to directly sell insurance to the clients of the MFI and iii) partnership wherein an MFI and the insurance company enters into an agreement for the latter to provide the insurance needs of the MFI clients.

Under the first arrangement, an MFI buys a group insurance policy from a commercial insurance company. Clients do not have individual insurance policies. Each client purchasing the insurance product are issued certificates by the MFIs indicating the premium payments, insurance coverage and benefits. Alalay sa Kaunlaran Incorporated (ASKI), a microfinance NGO in Central Luzon, Philippines entered into this type of arrangement with SunLife Inc. of Canada.

There are two life insurance companies that employ the second type of arrangement. These two companies (Cooperative Insurance Society of the Philippines-CISP and Coop Life Insurance and Mutual Benefit Services-CLIMBS<sup>43</sup>) are registered as service cooperatives with the Cooperative Development Authority (CDA) and are currently licensed by the Insurance Commission to sell life insurance policies. As cooperative entities themselves<sup>44</sup>, they partner with primary cooperatives (most of whom are also investors in the two companies) in the country to provide the insurance needs of cooperative members. Both entities purposely targeted the low end market by

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<sup>43</sup> CLASP is the one and only licensed life insurance company that is organized by an MBA. It was organized in 1971 by Coop Life Insurance and Mutual Benefit Services (CLIMBS), an MBA owned and organized by cooperatives, self-help groups and NGOs nationwide to provide mutual protection services to its members. In 2004, then Commissioner Evangeline Escobillo challenged the membership of CLIMBS to merge CLASP and CLIMBS to create a stronger institution that will cater to the insurance needs of the marginalized Filipinos. The merged institution retained the name CLIMBS and was given a license as a life insurance company. As of today, it has a pending application for a composite insurance company.

<sup>44</sup> Both CISP and CLIMBS are owned by primary cooperatives. Several primary cooperatives have investments in them.

directly selling to the members of cooperatives. CLIMBS and CISP have its own set of agents who are assigned to and directly go to the partner cooperatives to sell insurance policies. The agents are responsible for marketing the insurance products as well as for processing all the documentary requirements for application and for claims processing. To date, CISP is currently under conservatorship<sup>45</sup> while CLIMBS is doing well<sup>46</sup>. **Box 4** shows the approach adopted by CLIMBS in distributing microinsurance.

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

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

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

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

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

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

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

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

<sup>45</sup> CISP is currently under conservatorship due to undercapitalization. Problems related to governance resulted into the current problem of CISP.

<sup>46</sup> In early 2007, these two organizations have initiated discussions for merger. They were about to sign the merger in August, 2007 but CISP backed out of the agreement at the last minute.

the cooperative to which they are assigned to. CLIMBS choose the coop assurance manager/counselor and require a cash bond from them.

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

Unlike CLIMBS and CISP that used agents in selling their insurance products, Country Bankers Insurance Corporation does not use agents to sell insurance products to their partner MFI (mostly rural banks). This arrangement fall under the third type mentioned above. Being owned and organized by rural bankers themselves, Country Bankers use partnership agreements with rural banks wherein the rural banks themselves market the product and collect the premium payments from their clients. Country Bankers Incorporated usually has deposits<sup>47</sup> in the partner rural bank where premium payments are credited and claims are debited. This kind of arrangement was designed due to bad experiences with agents who ran away with premium collections in the past. With rural banks acting as agents (markets the product and collects the premium), Country Bankers claim that they are able to address the problem of agents running away with the premium collections. In some cases, one of the employees of the partner rural bank is licensed by the Insurance Commission as an agent but in other cases, the insurance policies marketed and distributed by the partner rural bank are treated as home office accounts. There is a memorandum of agreement between the rural bank and Countryside Bankers indicating that the policies distributed by the rural bank are considered as direct transactions of the home office and therefore, there are no commissions given to the rural bank concerned. In this case, rural banks received an administrative fee and all expenses incurred by the rural bank related to the insurance transactions are reimbursed by Countryside Bankers Incorporated. In this case, partner rural banks are treated as extension offices of the insurance company.

As of today, Country Bankers has only 7 agents considering that it sells an average of 22,000 policies in a month. They have partnerships with 600 rural banks

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<sup>47</sup> IC approval is required for the deposits to be considered an admitted asset of the Insurance company.

including their branches totaling 1200 units. It should be noted though that a large proportion of these policies are credit life insurance, an insurance product that is compulsorily required by most rural banks from its borrowers.

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

***Long claims processing period prompted some MFIs partnering with commercial insurance companies to establish MBAs.*** A few NGOs engaged in microfinance initially adopted the partner-agent model (e.g. Alalay sa Kaunlaran (ASKI) for the microinsurance needs of their clients. After a few years of partnership, they decided to organize MBAs for their clients because processing of claims from commercial companies took about three months resulting in dissatisfaction on the part of the clients. Considering that the MFIs introduced the concept of microinsurance to the clients, the MFIs are usually blamed for the shortcomings of the commercial insurance company. Delay in claims processing was usually attributed to incomplete documents. The centralized processing systems adopted by most commercial companies<sup>48</sup> required tedious verification process which further contributed to the delay. This had a negative impact on the reputation of the MFI and their relationship with the clients. In view of this, a number of MFIs shifted to the use of the mutual model in providing for the microinsurance needs of their clients. **Table 5** above provides a list of MBAs that are currently active in developing insurance products for members. Those MBAs are licensed by the Insurance Commission.

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<sup>48</sup> Claims are processed at the head office in Manila while MFIs and their clients are located in the provinces resulting in delays in processing.

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

***Use of the mutual model is popular among MFIs wanting to facilitate the provision of insurance services to their clients..*** Organization of MBAs to meet the insurance needs of microfinance clients is currently a popular track for MFIs in the country. Since most clients are already used to the idea of belonging to a group to meet their financing needs, promoting the idea of becoming a member of an MBA to meet their insurance needs has been easy for most MFIs. Insured clients are happy because they themselves are the owners of the association, premium contributions are uniform among members and benefits are promptly provided should an unforeseen event happen. It is an attractive mode for MFIs inasmuch as they also benefit when their clients who have been indemnified by the MBA, are able to honor their loan obligations. The MBA is perceived by both MFI and client-members to be an indispensable scheme that provide responsive benefits<sup>49</sup> to members and the MFIs.

***The foregoing arrangements show that compulsory participation in insurance activity for MFI clients reduces the cost of insurance.*** In a mutual model, all clients of the MFI are considered members of the MBA upon payment of a

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<sup>49</sup> To ensure that the benefits provided by an MBA cater to the risk protection needs of the members, a market study is conducted prior to the design of the appropriate microinsurance product. RIMANSI, offers, among other things, technical assistance in the conduct of FGDs for the market study and the design of the products.

membership fee. The members contribute to the MBA monthly or weekly. For some MFIs, rural banks in particular, purchase of a credit life insurance are a requirement. The premium payment is either deducted from the loan proceeds or is debited from the savings (if any) of the member-borrower. The compulsory requirement allows the insurance company and the MBA to provide lower cost insurance policies, especially if the MFI has a large number of clients.

### **3.2.4. Products**

The Insurance Commission defined microinsurance as “ .....” In reality, however, there are a number of insurance and insurance-like products that cater to the risk protection needs of the low income segment of the population. This section will describe all types of insurance products in the market that are designed to meet the risk protection needs of the poor. The products described below fall within the definition of microinsurance as provided for in IC-circular 2006-9. As mentioned previously, only life insurance were given the maximum coverage limitations. Non-life insurance products do not have limitations on maximum coverage, provided the premium payments and the features of the insurance policy contract fall within those provisions in the IC circular. Health insurance products and pension plans provided by some MFIs in partnership with health maintenance organizations or pre-need plans, however, do not fall within the IC definition inasmuch as these providers are not within the jurisdiction of the IC.<sup>50</sup>

The RIMANSI 2007 survey mentioned above observed different types of microinsurance products that have been introduced in the market by the respondent MFIs in the last 2-5 years (**Table 7**). Most MFIs provide loan or credit life insurance through partnership with a commercial insurance company. More than half reported that they have life or term life insurance facility. A number (6) of MFIs have also made available medical or health insurance to members/clients. Other products include mortuary/burial plans, insurance against accident and retirement or savings plan. Some

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<sup>50</sup> In view of what happened with the pre-need companies, discussions about putting health insurance and pre-need plans under the Insurance Commission are currently on-going.

of these products, however, were provided in-house by the MFIs concerned and therefore did not go through the IC insurance approval process.

**Table 7. Basic Types of Microinsurance Products**

<b>Product/Policy</b>	<b>Coops</b>	<b>RBs</b>	<b>NGOs</b>	<b>MBA</b>	<b>CIP</b>	<b>Total</b>
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: RIMANSI Survey, November 2007

The common features of these insurance products are outlined in **Table 8** and are discussed below. Premium payments for microinsurance are usually low. For most of the insurance products, premium payments range from less than a dollar to only about \$5 per week. In all cases, premium payments are made on a weekly basis and usually coincide with the weekly meetings where repayments and savings collection are also done. This is specifically true for those that are using the mutual model. In cases where a commercial insurance company directly underwrites the insurance, collection is usually done on a monthly basis by agents of the insurance company. In the case, however of credit life insurance offered by a full-service provider, premiums are collected by the MFI upon release of the loan. Premium collections are eventually remitted by the MFI to the insurance company.

**Table 8. Features of Microinsurance Products**

	<b>Credit</b>	<b>Life (e.g. PBC)</b>	<b>Medical/Health</b>	<b>Retirement</b>
<i>Coverage</i>	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: RIMANSI Survey, November 2007

***The most common microinsurance products offered are life and credit life with additional benefits.*** Following are the examples of these products:

- a. ***Credit life insurance is very common among rural banks.*** Worried about the risk of non-payment of loans should the borrower dies during the course of the loan and the regulatory implications of having loan defaults, most rural banks require their clients to buy credit life insurance. All MFI borrowers aged 18 to 65 years old are usually required to avail themselves of this product along with the usual loans from the MFI. All unpaid loans regardless of amount are covered by credit life insurance. In case of death of the borrower-member, the loan is considered fully paid. As an added benefit, most MFIs give cash ranging from Pesos 1,000 to Pesos 20,000 to the surviving spouse or family member, who have been earlier designated as beneficiaries. Some providers also provide additional benefits to the members of the family aside from covering the outstanding balance of the insured's loan.

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

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

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

want to buy several units of the product. A contestability period of one year is usually required for this product.

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

- c. ***Most microinsurance MBAs offers this kind of coverage (life and credit life) to their members.*** Life insurance indemnifies the beneficiaries with the face value of the insurance policy in case of death of the insured. When an insured client dies and leaves unpaid loans with the MFI, the outstanding loan is paid out of the proceeds of the insurance. An example is the life insurance provided by a large microfinance rural bank, People's Bank of Caraga (PBC), based in Northern Mindanao. PBC requires all members who are in their second loan cycle to take on life insurance. In case of death, the insured's beneficiaries receive a total of Pesos 60,000 (US \$1463) composed of (a) life insurance (Pesos 50,000 or US \$1220) and the balance of Pesos 10,000 (US \$243) for medical/burial assistance. The premium for such insurance policy is Pesos 820 (US \$20) for one year.
- d. ***Another insurance product is accident insurance.*** An example is the accident insurance provided by an NGO based in Iloilo City (Central Visayas) as a rider to life insurance. This plan provides for assistance to the insured member when he/she gets injured and hospitalized due to an accident. Benefits amounting to a low of Pesos 15,000 (US \$366) to a high of Pesos 100,000 (US \$2439) are provided for weekly premium payments ranging from Pesos 14 (US \$0.34) to Pesos 28 (US \$0.68).

- e. ***Mortuary and burial plans are usually riders to term life or credit life insurance.*** In the case of death of a member, assistance, usually in the form of cash, is given to cover the member's funeral expenses. A cooperative in Caraga region, Northern Mindanao provides this type of insurance to all members who are required to pay Pesos 100 per month for mortuary assistance of Pesos 2,000.

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

Clients consider health and medical benefits as important benefits for them to be able to cope with risks brought about by illness or sickness in the family. Some providers give cover to the insured in times of illness and/or hospitalization. This type of benefit comes in varied forms. Some providers, on the other hand, give direct assistance in terms of medical services while others provide the insured the coverage amount for hospitalization and medical expenses. Products of this type are shown in **Table 9.**

***The retirement/savings insurance is offered by an NGO*** (Quidan in Bacolod, Negros Occidental) to employees or salary earners among its clients since 2005. Members below 60 years old can avail of this plan and will get cash equivalent to the total amount of retirement/savings less any outstanding loan when they retire from employment. The premium/weekly contribution is Pesos 5 per week. Since this is not under the IC, there is no amount of investment income guaranteed and the employee

receives the equivalent amount of his/her savings with the regular interest rate on savings.

**Table 9. Comparative Features of Some Microinsurance Products**

Provider	Type of Product	Premium payments	Death benefits for insured	Death Benefits for Spouse	Death Benefits for Children	Accident	Burial Assistance	Medical/ Health Benefits
ASKI MBA	Life	P30 weekly	P120,000	P20,000	P10,000/ child – max of 3 children	P120,000 for principal P20,000 for legal spouse P10,000 for children		
RB Talisayan MBA	Life	P20 weekly	P30,000	P10,000	P5,000/ child – max of 3 children	P60,000 for principal P10,000 for legal spouse P5,000 for children		P1,000/12 mos of membership upon hospital confinement
Ad Jesum	Life	P20 weekly	P50,000	P5,000	P5,000/ child – max of 3 children	P100,000 for principal P10,000 legal dependents		P5000 (accidental medical reimbursement only)
CARD MBA	Life	P15 weekly	P50,000	P10,000	P10,000/ child – all children covered	P100,000 for principal P10,000 legal dependents		P10,000 motor vehicle accidental hospitalization
Country Bankers Microinsurance	Term life	P350 annually	P20,000	none	none	P40,000	P20,000	P2000 (accidental medical reimbursement only)
	microinsurance	P80 monthly	P100,000	P25,000	P5,000 max of 3 children	double benefits for principal and spouse		P10,000 max. medical reimbursement per year
CLIMBS	microinsurance	P20 weekly	P30,000	15,000	P5,000 max of 3 children	P30,000 for principal and spouse P15,000 for spouse and children P5,000 for children	P10,000 for principal, P5,000 for spouse and P2,500 for children	None (but has a fire insurance cash assistance of P40,000)
FICCO	Life	P21 weekly	P40,000	P10,000	P10,000/ child - max of 3 children	P80,000 for principal P20,000 legal dependents		
KSK	Life	P15 weekly	P50,000	P10,000	P10,000	P100,000 for principal P10,000 legal dependents		P10,000 per married couple per contract year – hospital reimbursement on vehicular accidents only

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

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

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

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

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

Schedule of Benefits

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

#### 4. Drivers Of The Microinsurance Market

As shown in the previous section, the development of the microinsurance market in the Philippines may be attributed to a number of factors. These factors may be classified as non-regulatory and regulatory drivers. The former refers to those elements of the market that led to the development of the microinsurance market in general and the design of various types of microinsurance products in particular. The regulatory drivers on the other hand, refers to specific regulations, issuances and circulars that led to the development of the microinsurance market.

## **4.1. Non-Regulatory Drivers**

### **4.1.1. *The clients themselves demand some form of risk protection.***

Those who are members or affiliates of MFIs have put pressure on those organizations to develop in-house microinsurance schemes. MFIs responded by (a) designing in-house “microinsurance schemes” without the benefit of actuarial computations, thereby creating risks for both the organization and member-clients, (b) forming mutual benefit associations and (c) tapping the services of traditional commercial insurance companies. Risk protection against illness, death and injury and to some extent limited forms of fire and property insurance, and health insurance have been developed by both informal or formal providers<sup>51</sup>. Insurance for natural calamities and the vagaries of the weather is a potential growth area for insurance especially in a country such as the Philippines, which experiences regular occurrences of natural calamities (typhoons, flooding, drought and earthquake).

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

The development of the microfinance industry in the Philippines demonstrated that the poor are viable clients of financial services (e.g. loans and savings). This resulted in the mainstreaming of the poor into the financial system. Private financial institutions have increasingly provided savings and credit services to the poor. This development has established a large client base that is familiar with the use of financial services (e.g. need for regular payments for the purchase of the insurance product). Such familiarity makes it easier for any provider to offer insurance services as the

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<sup>51</sup> There has been recent interest in weather or index-based insurance among agricultural borrowers because of the failure of the government's crop insurance program to provide the needed protection for crops, livestock and farm-related assets. This is not discussed, however in this paper.

poor considers these as another type of financial product that will meet their financial needs and allow them to cope with the risks they face.

**4.1.3. *Increased competition among MFIs prompted the provision of better and expanded services to clients.***

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

**4.1.4. *MFIs realized that the risks faced by clients may result in greater institutional risks for them.***

The recent microfinance revolution has given the poor access to savings and credit services from different types of MFIs. Experience has shown, however, that the savings and credit services are not enough to cover the risk protection needs of the poor. Savings and credit services enable low income households to only somehow manage and cope with risks with some degree of certainty of occurrence and with losses that are relatively small. But when risks are uncertain and losses are large or technically

catastrophic, low income households are unable to cope and manage the risks they face. These risks come in various forms such as illness or injury, death of a family member and, manmade or natural disasters. When faced with these events, the poor's cash flow, liquidity and earning abilities are drastically impaired, hence affecting their ability to continue accessing savings and credit services from a microfinance institution. Given the likelihood of these events, microfinance institutions providing savings and credit services to the poor realized that their loan portfolios are at risk for as long as clients are not able to manage their risks. Thus, microinsurance, e.g., credit life and life insurance, has started to emerge and became a popular product to provide for risk protection not only for poor clients but for MFIs as well.

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

The need for microinsurance discussed in the preceding sections prompted MFIs to enter into various arrangements to provide microinsurance to their clients. Pre-established groups under the MFI operations facilitated the implementation of group-based insurance. The group mechanism most commonly adopted by MFIs in their operations facilitated the provision of microinsurance services using various delivery channels. The loan repayment mechanisms developed by MFIs also prove to be effective for the members' premium collection. These mechanisms have created a payment culture on which the microinsurance provider is able to piggy-back the premium collection. Collection of premium payments is made easy through the weekly/regular meetings of clients. The pre-established groupings for microfinance have also made it easy for MFIs to organize mutual benefit associations (MBAs) to provide microinsurance for their clients.

## **4.2. Regulatory Drivers For Microinsurance**

### **4.2.1. Establishment of an appropriate and conducive policy environment for greater private sector participation in the provision of financial services to the poor resulted in greater financial inclusion.**

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

Various laws have motivated financial inclusion of the poor (e.g. the Social Reform and Poverty Alleviation Act, the Agricultural Fisheries and Modernization Act, amendments to the General Banking Act, and the Barangay Micro Business Enterprises Act) and several government issuances, particularly by the Bangko Sentral ng Pilipinas, have proven to be effective in providing the poor greater access to credit and savings services by formal financial institutions. In particular, it has set the tone for a greater number of microfinance institutions to provide financial services previously given only by informal lenders. From less than a hundred in 1997, the number of MFIs (rural banks, cooperatives and NGOs) has increased to 1,410 institutions (2,188 including branches) with an outreach of 3.1 million clients.<sup>52</sup>

### **4.2.2. The Insurance Code provides the latitude or flexibility for the insurance regulator, the Insurance Commission, to issue circulars that are intended to provide an enabling environment that is responsive to the changing conditions of the market.**

The growing interest in insurance by poor households and micro-enterprises, mostly coming from the informal sector and the desire to cover

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<sup>52</sup> As of August, 2007. Microfinance Unit, National Anti-Poverty Commission (NAPC).

them through formal (regulated) insurance, has motivated the Insurance Commission to express support to the strengthening of Mutual Benefit Associations. This is particularly expressed in the issuance of circulars defining microinsurance MBAs and lowering of capitalization requirements of this kind of MBA. Aside from these recent issuances, the existing provisions of the Insurance Code on industrial life insurance give commercial insurers basis and a benchmark for designing effective microinsurance products and services. The features of an industrial life insurance as defined in the code fits the requirements for the risk protection needs of the poor. This provision also gives enough latitude for commercial insurers to design specific insurance products that meet the risk protection needs of the poor considering their affordability requirements. Existing provisions of the Insurance Code do not prohibit commercial insurance companies to partner with MFIs as a cost-effective delivery mechanism in providing the microinsurance needs of the poor. More recently, the use of the electronic payments system offer safe platforms for commercial insurers to reduce the operational costs of reaching the poor who are mostly situated in areas where physical access is a problem.

**4.2.3. *Recent circulars on microinsurance issued by the Insurance Commission spurred greater interest among MFIs to meet the risk protection needs of their microfinance clients.***

The successful reform program in microfinance has motivated both the government, the regulatory authority (Insurance Commission) and various private stakeholders to pay attention to the challenges in the incipient microinsurance market. With the poor gaining more access to formal loans, the high level of borrowing with MFIs has spurred demand for life and credit life insurance. The need for risk protection of clients or customers has also become apparent. As pointed out earlier, both informal and formal microinsurance schemes have started to emerge,. Thus, the Insurance Commission has recently issued circulars deemed favorable to

microinsurance development. These circulars paved the way for an increased interest among MFIs to facilitate the organization of microinsurance MBAs. As noted in previous sections, these MBAs require lower capital requirements compared to non-microinsurance MBAs. These MBAs, however, will be subjected to specific performance standards.<sup>53</sup>

#### **4.2.4. *Regulatory forbearance and the demand for risk protection among microfinance clients resulted in the implementation of informal microinsurance schemes among MFIs.***

As described in the previous sections, cooperatives are one of the microfinance institutions that provide informal and unregulated microinsurance products to their members. Unlike the banks that are regulated by the Bangko Sentral ng Pilipinas, cooperatives (especially those engaged in savings and credit operations) have not been appropriately and effectively regulated nor supervised by the Cooperative Development Authority. It is only recently that the agency has come up with the rules and regulations for cooperatives engaged in savings and credit operations. Effective supervision is yet to be implemented. In this regard, informal insurance schemes and arrangements have mushroomed among these types of institutions. With the new thrust of the CDA to provide a more effective regulatory environment for cooperatives and with an increased coordination between the Insurance Commission and the CDA, it is expected that cooperatives would either be employing any of the existing distribution channels in meeting the risk protection needs of their members. They can, as an alternative, organize their members into MBAs considering the more lenient capitalization requirements for an MBA. With clear-regulatory guidelines and procedures under both the Insurance Code and Cooperative Code, the cooperatives are also encouraged to transform themselves into formal insurance providers as a cooperative insurance society or adopt the partner-agent model.

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<sup>53</sup> The Insurance Commission is currently working on the development of a set of performance standards for microinsurance MBAs.

**4.2.5. *The Department of Finance as the oversight agency for government financial institutions and regulators (Securities and Exchange Commission, Insurance Commission and the Philippine Deposit Insurance Corporation) shields the regulator, from political intervention to ensure that regulations are consistent with the market-friendly financial policies that have been supported by the government.***

To further create a conducive policy and regulatory environment for microinsurance, the roles of the Insurance Commission and the Department of Finance, as oversight agency, cannot be overemphasized. With its broad and flexible regulatory power over the insurance industry, the Insurance Commission can issue the needed rules and regulations for the effective functioning of institutions in promoting microinsurance. Recent issuances by the Commission indicate Government's commitment towards this direction. In as much as these circulars are mainly focused on MBAs, the next steps are to lay a favorable framework for the increased participation of commercial insurers, setting the rules for cooperative insurance societies and defining the important roles of insurance agents/brokers and re-insurers.

## **5. Developing Principles for Microinsurance Regulation**

### **5.1. Financial inclusion is facilitated by an explicit policy direction from government to encourage private sector participation in the provision of appropriate financial services to the poor (microinsurance included).**

Explanatory Note to the Principle:

Experience has shown that the provision of financial services to the poor should be done in a viable and sustainable manner and this is best done by the private sector. To ensure greater access of the poor to financial services, private sector

participation should be enjoined. To do this, the government should provide an enabling policy and regulatory environment that will lead to the establishment of a viable and sustainable market for financial services to the poor and thereby encourage the private sector to increasingly participate. Among the policies that should be adopted are: adoption of market-based financial and credit policies, non-participation of the government in the provision of financial services. An effective regulatory framework that does not discriminate against the provision of financial services to the poor (e.g. non-collateral lending, low premium policy for microinsurance clients) is equally important.

#### Relevant Philippine Context:

The issuance of the National Strategy for Microfinance in 1997 envisioning the establishment of a viable and sustainable micro-financial market paved the way for increased private sector participation in the provision of micro financial services to the poor. In particular, the termination of all government subsidized credit programs and the non-participation of all government non-financial agencies in the implementation of government credit programs led to the renewed and increased interest of the private sector in the provision of both savings and credit facilities to the poor. The issuance of various laws and circulars related to the objective of establishing a viable and sustainable micro financial market further facilitated private sector participation. Specific regulations of the Bangko Sentral ng Pilipinas on the acceptance of non-collateralized lending has likewise spurred the interest of most banks to also provide microfinance services.

Greater familiarity of the private sector towards the behavior of the poor towards financial services facilitates the design of microinsurance products that are tailored fit to the risk protection needs and circumstances of the poor.

## **5.2. Establishment of an appropriate and effective regulatory framework for microinsurance is important for greater outreach and for developing an insurance culture among the poor.**

### Explanatory Note to the Principle:

Microinsurance is very different from the usual microfinance loan. With microfinance loans, clients are given the loan and loan collections are done after the loan has been released. In this case, payments are done for a service that has already been rendered. On the other hand, with microinsurance, clients are asked to pay premiums or contributions for a service or benefit that will be given at a future time. In this regard, it is always important that appropriate rules and regulations that ensure the sound financial condition and good market conduct of the insurer are implemented. A failure of one insurer to deliver the promised benefit would lead to increasing reluctance especially among the poor to avail of microinsurance services.

### Relevant Philippine Context:

The failure of the industrial life insurance products offered by the Filipinas Life Assurance Company in the early 70s led to the reluctance of most people in the countryside to avail of insurance products. A number of individuals, mostly coming from the same barangay, were burned by this type of insurance, resulting in their reluctance to avail of insurance products.

In the same manner, recent failures of the Pre-need Companies which offer insurance-like products (e.g. educational plans, pension plans, interment plans), to pay the guaranteed benefits at the time the holder of the pre-need plan needed it resulted in the reluctance of most individuals to avail of insurance products. While pre-need plans are not considered insurance products since they are not within the jurisdiction of the Insurance Commission, the confusion brought about by the

similarity of having guaranteed benefits resulted in the limited market for insurance products in general and microinsurance in particular.

Given the foregoing, it is therefore imperative that an effective regulatory framework defining in categorical terms all risk-pooling products with guaranteed benefits to be under the supervision and jurisdiction of the Insurance Commission. Appropriate regulations that will ensure safety of the monies of the insured should be implemented.

### **5.3. Government should set standards for effective and efficient delivery of financial services (micro insurance included) to the poor.**

#### Explanatory Note to the Principle:

With an enabling policy and regulatory environment that is conducive for greater private sector participation, it is likely that more and more institutions will be interested in the provision of financial services (microinsurance included) to the poor. As more institutions become interested in the provision of these services, establishment of standards of performance that will set the benchmark for prudential and market conduct behavior becomes imperative to ensure that the poor is appropriately protected.

#### Relevant Philippine Context:

The circular defining microinsurance issued by the Insurance Commission in 2006, defines among others the basic features of microinsurance. Accompanying this circular is another circular that provides a lower the guaranty fund requirement for mutual benefit associations (MBAs) wholly engaged in microinsurance. With lower guaranty requirements for these institutions, the commission also prescribes adherence to a set of standards (yet to be developed) that will ensure that MBAs' operations are safe and sound. These set of performance indicators and standards

could be used by both regulators and management of a micro insurance business. Aside from assessing the financial performance of the micro insurance provider, the indicators should cover the entire range of micro insurance operations, including marketing and distribution, investment management and risk management.

#### **5.4. Regulations are developed taking into consideration the developments in the market and/or industry.**

##### Explanatory Note to the Principle:

Regulations are developed to produce outcomes which might not otherwise occur, or prevent outcomes that might otherwise occur. While regulations are usually put in place to prevent undesirable behavior and performance of the market, regulations should not impede nor constrain the development of the market. Regulations should facilitate the healthy development of the microinsurance market ensuring greater participation of the insurers in providing the poor risk protection services. Regulations should likewise, encourage the development of innovative products that cater to the risk protection needs of the poor.

##### Relevant Philippine Context:

While there is already an overarching regulatory framework for the provision of insurance services in the Philippines, recent interest in microinsurance by a number of microfinance institutions led the Insurance Commission to take a closer look at these schemes. Realizing that microinsurance are not traditionally provided by large insurance companies, the Insurance Commission recognized the potential for this market and issued IC Circular 9-2006 defining microinsurance and identifying its features. With the issuance of the circular, a number of institutions that used to provide microinsurance products outside of the regulatory ambit became aware of the regulatory requirements and has started to comply.

Knowing the unique and peculiar characteristics of the clients of microinsurance, the Insurance Commission recognized that mutual benefit association is one structure that could be used to facilitate the provision of microinsurance services. Since microinsurance have lower premiums, the Insurance Commission lowered the guaranty fund requirements for MBAs wholly engaged in the provision of microinsurance.

Partnership of commercial insurance companies with MFIs is considered another distribution mode for microinsurance. KYC regulations under the Anti-money laundering Act recognized this and allowed for the the KYC requirements to be waived in favor of bank's clients who will be applying for insurance coverage from the bancassurance partner in exchange for a notarized Bancassurance Agreement which contains a warranty clause that the partner bank has already subjected its clients to KYC requirements.

#### **5.5. Regulatory forbearance exposes the poor to risks that may be greater than what microinsurance is supposed to cover.**

##### Explanatory Note to the Principle:

Microfinance institutions that are not regulated nor supervised by a regulatory authority are able to develop products that cater to the financial and risk protection needs of their clients/members without any constraints from a regulator. Most often these products are provided without any consideration as the safety and soundness of the product. Regulatory forbearance leads to the development of microinsurance products that are not approved nor regulated by the regulatory authority leading to products that exposes the clients to further risks. For instance, microinsurance products are designed without the benefit of sound actuarial basis. Hence, instead of meeting the risk protection needs of the poor, they are exposed to greater risks (i.e. the risk of not recovering their premium payments). This therefore, underscores

the need for the implementation of an appropriate regulatory environment for microinsurance.

Relevant Philippine Context:

In the Philippines, cooperatives are considered one type of microfinance institutions. Many cooperatives provide microfinance services to their member-clients. Despite the fact that these cooperatives are engaged in financial intermediation (i.e. providing savings and credit services to its members), cooperatives are currently not regulated nor supervised by the designated regulatory authority (i.e. the Cooperative Development Authority). This regulatory forbearance which has been in effect for about 18 years led to several failures of cooperatives engaged in the provision of savings and credit services.

Aside from these failures, ineffectiveness of the regulatory authority also led to the establishment of in-house insurance schemes for the cooperative members. These in-house insurance schemes are not approved by the Insurance Commission. Most cooperatives are able to design and implement these schemes without being questioned inasmuch as their total operations are not monitored nor examined by any regulatory authority. The Insurance Commission, on the other hand, do not know inasmuch as they do not have access to the operations of these cooperatives.

This practice has been prevalent among microfinance NGOs and cooperatives since both institutions are currently not subjected to close supervision and examination. The banks on the other hand, are not able to develop and design these kinds of products inasmuch as the Bangko Sentral ng Pilipinas are conducting examination of bank operations on an annual basis.

## **5.6. Level playing field for the regulation of entities engaged in the provision of microinsurance services.**

### Explanatory Note to the Principle:

To encourage insurers to provide microinsurance services to the poor, regulations should provide for a level playing field among insurers. Regulations such as capitalization requirements may vary according to the allowable insurance business for each type of insurer. While taxation is not strictly regulation, taxation requirements for all types of insurers should ensure a level playing field.

### Relevant Philippine Context:

MBAs and cooperatives are exempted from the payment of tax on net income derived from its operations. Although this indicates an uneven level playing field with commercial insurance providers, it is however considered reasonable as any surplus fund realized by these entities is plowed back to their owner-members.

## **5.7. Financial literacy is an important component for the successful provision of microinsurance services.**

### Explanatory Note to the Principle:

Microinsurance providers should have a support mechanism to meet the needs of the clients. Aside from the usual requirement that will ensure the actuarial soundness of the product and the stability and solvency of an insurance provider, a microinsurance provider should have a program for educating the client on the product, the benefits, the client's rights, the claims procedure and the various exclusions on the policy.

### Relevant Philippine Context:

There is a very low insurance penetration rate in the Philippines. This may be attributed to the lack of insurance awareness among those who can be insured. In particular, the low level of insurance activity among the poor is attributed to their lack of awareness and appreciation of the benefits of insurance. Focus group discussions with potential clients show that most of those interviewed are not aware or have not heard of insurance in their lifetime.

Aside from conducting awareness campaign on the benefits of insurance, information and education campaign on the rights and responsibilities of the insured should also be conducted. Literacy programs on how the poor can cope with the risks they face using insurance products should also be conducted.

In the same manner, information roadshows on microinsurance and the regulatory requirements for the efficient provision of microinsurance should be conducted. The roadshow on microinsurance conducted by the Insurance Commission in 2007 increased awareness among MFIs on the various regulations on the provision of microinsurance. This also paved the way for most MFIs to consider the provision of microinsurance within the regulatory ambit of the Insurance Commission.

## **IV. Concluding Remarks**

This study provided a better understanding of the policies, legal, regulatory and supervisory framework in providing insurance services to the poor. The Philippine Insurance Code provides a suitable platform for issuing regulations that would enhance the workings of the microinsurance market. The regulatory forbearance adopted by the Insurance Commission shows an understanding of the challenges in this emerging market. The assessment that this study has made of the current policy and regulatory framework has identified specific concerns that are brought to the attention of policy makers and regulatory authorities for action.