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Microinsurance Innovations Project (MIP) in the Philippines

Pre-appraisal Report
July 2007

on behalf of German Technical Cooperation (GTZ)
within the Framework of the Small- and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP)

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Box 1. Abbreviations

ADB	Asian Development Bank
ARDC	Agricultural and Rural Development for Catanduanes
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
CCA	Canadian Cooperative Agency
CISP	Cooperative Insurance System of the Philippines
CLIMBS	Cooperative Life Mutual Benefit Services Association
BMZ	Bundesministerium für wirtschaftliche Entwicklung und Zusammenarbeit
FSD	Financial Systems Development
GF	Guarantee Fund
GTZ	Gesellschaft für Technische Zusammenarbeit
GSIS	Government Service Insurance System
HMO	Health Maintenance Organization
IC	Insurance Commission
ICMIF	International Cooperative and Mutual Insurance Federation
ILO	International Labour Organization
OMB	Opportunity Microfinance Bank
KaSAPI	Kalusugang Sigurado at Abot Kaya sa PhilHealth Insurance
KMBI	Kabalikat Para Sa Maunlad Na Buhay Inc.
MBA	Mutual Benefit Association
MDG	Millennium Development Goal
MFI	Microfinance Institutions
MIA	Microinsurance Agency
MIP	Microinsurance Innovations Project
MSME	Micro-, Small and Medium Enterprise
NCC	National Credit Council
NEDA	National Economic and Development Authority
NTWF	Negros Women for Tomorrow Foundation
OI	Opportunity International
PHP	Philippine Peso
PIDS	Philippine Institute for Development Studies
PPP	Public Private Partnership
PPSTA	Philippine Public School Teachers Association
RIMANSI	Risk Management Solutions Inc.
RSP	Regulation, Supervision and Policy Issues
SEC	Securities and Exchange Commission
SMEDSEP	Small and Medium Enterprise Development for Sustainable Employment Program
SSS	Social Security System
TA	Technical Assistance
TSKI	Taytay Sa Kauswagan, Inc.

1. Introduction

1.1 Background

The Philippine Government and the German Technical Cooperation (GTZ) cooperate in areas such as the promotion of market development for micro- and social insurance in the framework of PhilHealth or in the development of markets for business development services in selected sub-sectors within the Small and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP). As these projects have been making good progress, the Philippine Government (National Economic Development Authority, NEDA) requested the German Government (Federal Ministry for Economic Cooperation and Development, BMZ) to consider a new project under the broad heading of “Marking markets for insurance and social services work for the poor“, within the scope of the focal area of Sustainable Economic Development.

1.2 About the Mission

The consultancy’s objective was to develop a proposal in the above field for a new SMEDSEP component, or a freestanding project, including its strategic approach, partners, features of technical support and other relevant implementation issues.

Interviews, group discussions (Annex 1) and literature review (Annex 2) are the main sources of information on which the following proposal is based. The intensive discussions held with, and information provided by the Insurance Commission, RIMANSI management and selected member organisations (Mutual Benefit Associations, MBAs), Microfinance Institutions (MFIs) and insurers and international development partners were instrumental for its development for which the mission team is grateful. The consultants’ tasks are summarized in Box 2.[1]

[1] This mission was carried out from 27 March until 4 April 2006 in Manila. Martina Wiedmaier-Pfister was the team leader and responsible for this report. SMEDSEP assigned Dante O. Portula as local consultant for this mission. GTZ Health Program assigned Matthew Jowett to support the mission. Gilberto M. Llanto contributed to the report.

Box 2. Tasks of the Appraisal Mission

- Identification of gaps and challenges in the provision of social insurance/microinsurance
- Identification of lead partner agency and other partners
- Review different concepts/models of social insurance and services developed and implemented in the Philippines and their potential for replication
- Review activities of other development partners
- Review work from the GTZ Health and SMEDSEP Programs
- Identify synergies with other GTZ programs, German DC organizations and programs of other donors
- Prepare first recommendations with regard to the above for a workshop to be held at the end of the mission
- Assist in the preparations of and contribute to a workshop at the end of the mission

SOURCE: Terms of Reference "Support to the Small and Small and Medium Enterprise Development for Sustainable Employment Program (SMEDSEP) in „Marking markets for insurance and social services work for the poor", March to May 2007

1.3 Rationale and Definition of Microinsurance

Development experts across the world agree that microinsurance is a powerful tool for poverty reduction by enabling poor households to pool their risks and thereby prevent them from falling deeper into the poverty trap due to unforeseeable shocks. Today, microinsurance promotion is an integral part of programs to strengthen both financial systems development, and health and social security systems. Development agencies, professionals and some governments look at microinsurance from these different conceptual viewpoints (see Annex 3).

For the purpose of this paper, the following definition of microinsurance, which was established recently by the Insurance Commission (IC) is adopted.[2]

- *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 1,050 PHP (23.33 US$)*[3] *and the maximum amount of life insurance coverage is not more than 175,000 PHP (3,888.89 US$).*

[2] 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.
[3] Exchange rate: 1 US$ = 45 PHP as of May 23, 2007

Based on these considerations and definitions we looked at both the social security system in terms of coverage/enrolment of informal economy workers, and the stage of microinsurance development in the Philippines in general. In alignment with the definition the CGAP[4] Working Group on Microinsurance (CGAP-WG MI) uses for microinsurance, we also consider insurance services provided under the social security system of the Philippines, and for which the insured pay a premium, as microinsurance. According to the CGAP definition, and our understanding, subsidy based or fully government-financed insurance programmes are not considered microinsurance.[5]

2. Microinsurance in the Philippines

The following chapter provides an overview of microinsurance providers in the Philippines, i.e. the demand side, microinsurance providers, the policy, legal, regulatory and supervisory framework, the support agencies and the linkages between them.

2.1 Clients

The existing social insurance schemes fail to cover the informal sector. Philippine Health Insurance Corporation (Philhealth), Government Service Insurance System (GSIS) -for government employees, and Social Security System (SSS) - for private sector employees, statistics show that the majority of their members belong to the formal sector and they are mostly regular employees. Three-fourths of Philhealth's members are employees from the private and government sectors. Currently, there are 1.4 million GSIS members. As of December 31, 2004, SSS coverage amounted to roughly 25 million formal workers. Only 10% of the 658,000 domestic helpers in the Philippines in 2005 are covered by SSS. The informal sector represents roughly half to three-fourths of the Philippine economy, labour force, and overseas work. The micro and small enterprises, constituting 90% of all business establishments, are the biggest employment generators. The formal sector has been subcontracting most of their production and service requirements to the informal sector as external providers in response to fierce competition in global markets. The informal sector thus, represents a vast client base for social insurance schemes.[6]

[4] Consultative Group to Assist the Poor
[5] Draft Issues Paper on Microinsurance for Insurance Supervisors, CGAP-WG MI; Subgroup Regulation and Supervision and International Association of Insurance Supervisors (IAIS), May 2007
[6] Gilberto Llanto, Joselito Almario and Marinella Gilda Llanto-Gamboa (2007) „Microinsurance in the Philippines: Policy and Regulatory Issues and Challenges", A report submitted to RIMANSI.

2.2 Microinsurance Providers

In the Philippines, some promising approaches for the provision of microinsurance have been developed at several levels of the insurance sector. In the following part, we distinguish between market- or privately-driven approaches, including member-based organizations, and approaches in the public sphere.[7] However, the latter is limited to the public health insurance scheme PhilHealth and its linkages.

We can distinguish three main types of actors involved in the provision of microinsurance in the private sphere: the member-based cooperative or mutual insurers, the commercial insurers and the public schemes.

Cooperative and Mutual Insurers

Among the traditional type of microinsurers are the member-based **cooperative and mutual insurers.** In 2005, the International Labour Organisation (ILO)[8] identified 18 cooperative insurers in the Philippines providing insurance services to their members. They are registered with and supervised by the Cooperative Development Authority. Among the largest schemes are CISP (64,000 members), FICCO (50,000 members) and MMGHS (38,000 members).[9] The remaining serve each between 200 and 11,000 members, and together approximately 50,000 members. They offer one or several of the following products: life, hospitalization, loan protection, pension and maternal care. Contributions vary a lot and depending on the benefit plan, ranging from 100 PHP per year (2.22 US$) to 1,200 PHP (26.67 US$)[10] per year, in the case of GMA Multi-Purpose Cooperative which makes use of the state sector insurance programme PhilHealth, up to 2,400 PHP (53.33 US$). The largest one, CISP is a second-tier insurer, registered cooperative and is also licensed by the Insurance Commission (IC) as a life insurance company. It serves 390 cooperatives and has a membership base of approximately 64,108 according to the ILO survey. It offers a range of services including coverage for life, disability, dismemberment, burial benefit and in-hospital income compensation. CISP has also set-up a pension scheme with another cooperative insurer, the Cooperative Union of the Philippines.

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[7] Apart from the described actors, a number of non-financial NGOs, community-based Health Maintenance Organizations (HMO), hospitals and local government authorities are also providing health benefit schemes (see ILO, 2005). This type of actor cannot be assessed during the pre-appraisal mission and can be looked at later.

[8] Inventory of Micro-Insurance Schemes in the Philippines (2005)

[9] Cooperative Insurance System of the Philippines (CISP), First Community Cooperative (FICCO), Medical Mission Group Hospitals and Health Services Cooperative (MMGHS)

[10] Premium per indigent household and year.

Another second tier institution in the cooperative sector is CLIMBS[11] which holds a license as a Mutual Benefit Association (MBA). CLIMBS offers credit life insurance, life insurance, accident insurance and under its Family or Group Insurance Plan some benefits for hospitalization, consultation, laboratory and maternity. Mutual Benefit Association can be divided into two groups: the traditional ones such as CLIMBS and PPSTA[12], and the relatively new type of MFI-based MBAs. A complete list of MBAs is provided in Annex 4.

The MFI-based MBAs are being established by MFIs as a subsidiary to handle their insurance portfolio. Before that, the MFI either accessed insurance policies from a commercial insurance company or directly developed and provided its own insurance product. Currently, there are 8 MBAs established or in the process of being established.

Table 1: List of MI-MBAs assisted by RIMANSI as of May 07, 2007

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

*Scheduled date of licensing
Source: Insurance Commission

Some MFIs such as ABS-CBN Foundation, ARDC[13] and MILAMDEC Foundation and NWTF[14] run their own microinsurance schemes accounting for between 14,000 and 36,000 clients. Life loan protection is the major product, however, some also offer accident, hospitalization or pension plans. According to the ILO inventory, some of them collect large amounts of contributions but disburse only a minor percentage in the case of the organizations mentioned above.

[11] Cooperative Life Mutual Benefit Services Association (CLIMBS)
[12] Philippine Public School Teachers Association (PPSTA) with approximately 250,000 contributors
[13] Agricultural and Rural Development for Catanduanes, Inc. (ARDC)
[14] Negros Women for Tomorrow Foundation, Inc. (NWTF)

Commercial Insurers

According to a representative of a commercial insurer, commercial insurance companies have been looking at the "broad C" market segment for some time. Local insurance companies such as Mercantile Life, Coco Life, Sun Life and ManuLife have been partnering with Microfinance Institutions. A Dutch insurer has helped PAKISAMA MBA. However, quoting one commercial insurer, the Philippine insurers increasingly recognize the business potential of the unmet need for insurance of lower customer segments are having in terms of insurance and pre-need products.[15] This information is based on discussions, and the consultants are not able to verify as industry research is unavailable.

Table 2: Number of Licensed Companies

	2000	2001	2002	2003	2004
Life	39	37	33	32	34
Non-Life	110	107	99	102	97
Composite	3	3	4	4	4
Professional Reinsurers	4	4	3	3	2
Number of Licensed Companies	**156**	**151**	**139**	**141**	**137**

Source: Insurance Commission

As Table 2 shows, the number of licensed insurance companies has consistently dropped since 2000. By the end of 2004, there were only 137 licensed insurance companies from 156 in 2000. The drop could be attributed to one of the following factors: (1) non-renewal of business; (2) mergers; and (3) issuance of Cease and Desist Orders by the Insurance Commission for failure to comply with certain regulatory requirements.

Non-life insurance companies constitute the bulk of licensed insurance companies at 71% on the average, followed by life insurance companies at roughly 24%. The composite insurance companies and the professional re-insurers account for the 5% residual.

As of December 31, 2004, four composite insurance companies existed – 3 domestic and 1 foreign – which offer both life and non-life insurance business. The number of professional re-insurers went down to one as the Malayan Reinsurance Corporation and Universal Reinsurance Corporation merged, which is now known as the Universal Malayan Reinsurance Corporation.

Microinsurance Agents

In February 2007, Opportunity International's Microinsurance Agency (see Box 3) has established its first national microinsurance agent in the Philippines which intermediates insurance on behalf of Coco Life Insurance Company. The agent is a subsidiary of the global

[15] Pre-need products are education and pension plans.

microinsurance broker "Microinsurance Agency MIA)". Before that, operations in the Philippines were handled through MFIs which subscribed group policies for their clients (de facto acting as an agent), accounting for over 350,000 clients as of the end of 2004. MIA Philippines offers mainly life insurance products. According to MIA's president, MIA Philippines would also qualify for a broker licence (which is more difficult to get). MIA plans to introduce innovative health products but require funding for research and product development for this new venture. It was also noted that an obvious starting point would be for MIA to work with PhilHealth and further develop its insurance product to meet the needs and demands of their clients.

Box 3. Microinsurance Agency of Opportunity International

The Micro Insurance Agency (MIA) is an insurance broker dedicated to serving extremely poor households with an affordable and suitable range of insurance products. It works in partnership with organizations that are currently serving the poor such as microfinance organizations, rural banks and SACCO's, as well as humanitarian organizations that are serving the poor with non-financial services. In addition to providing services to the poor through existing networks, it develops direct sales distribution methodologies that utilize technology to minimize transaction costs.

Furthermore, the MIA also engages in the design of the products and the back-office administration of those products since MIA has found that , with an average premium of $1 to $2 per month, minimizing the cost per transaction is critical.

The Micro Insurance Agency has its roots within Opportunity International, a large microfinance network. MIA began working in 2002 on the development of a range of life, property, livestock, crop derivative, disability, unemployment and health insurance products. As of end 2006, MIA serves more than 3 million people in ten different countries.

In addition to running a global insurance brokerage business, MIA provide consultation in product design and implementation both for MFIs in countries where we do not have an operation and also for large donor groups.

Source: The Microfinance Agency, Overview of the Micro Insurance Agency's Operations, Richard Leftley, November 2006, Opportunity International

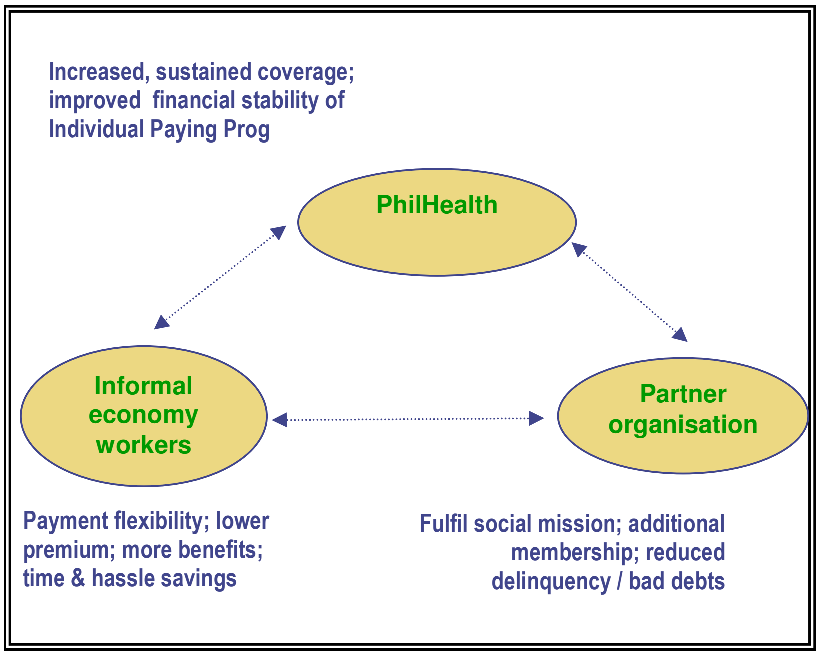
Public Schemes

In the public sphere, a major venture is the plan to enrol all Filipinos into the national health insurance programme, in order to increase access to affordable health services. The main challenge facing PhilHealth in achieving its goal of universal coverage is to enrol an increasing number of workers and their families operating in the informal economy. PhilHealth has been working hard to incorporate these workers, for example through group enrolment through partnerships with well-established microfinance institutions and cooperatives.

Known as KaSAPI (Kalusugang Sigurado at Abot Kaya sa PhilHealth Insurance), the initiative builds on an earlier approach which partnered with small cooperative organisations, using them as an agent to collect premiums from their members, for which they received a small fee. This approach was further developed and expanded, both to improve its technical design and to increase its impact. The design of KaSAPI is based on a review of the initial approach, and in-depth discussions with the microfinance sector[16] and PhilHealth officials.

KaSAPI is based on a triple-win concept; i.e. that it directly benefits the three main stakeholders PhilHealth, the partner institution, and the individual members of the partner institution. Central to this is a discounted premium for groups, the principle being that the larger the group the larger the discount to the partner institution. For PhilHealth, the potential benefits include boosting the currently low levels of coverage amongst the informal sector, maintaining this enrolment over time, and strengthening financial stability by mitigating adverse selection[17].

Box 4. Triple-win Concept of KaSAPI



For the partner institution, the scheme assists them to bring health insurance to their clients in a sustainable fashion: the vast majority of microfinance organisations stress that their clients are requesting health insurance. In addition, there is evidence that illness represents a significant credit-risk for such financial institutions, and hence by boosting health insurance

[16] A senior staff member of the Visayan Cooperative Development Center was seconded for six months to work with GTZ and PhilHealth to develop the initiative.

[17] Adverse selection is a major problem in health insurance markets, and frequently bankrupts schemes or makes them so expensive that the poor cannot afford to contribute. Currently PhilHealth's Individual Paying Program is running at a loss of 120% (ref. section D.1.b of the World Bank "Project Appraisal Document for a National Sector Support for Health Reform Project" attached to email). Group enrolment is a key strategy in mitigating adverse selection.

coverage amongst their members they can also reduce their credit risk. Finally, for members themselves, health insurance can help them from falling into poverty as a result of falling ill.[18]

The KaSAPI initiative was launched in late 2005, and to date has signed agreements with thirteen separate MFIs. The scheme has yet to fully settle down in terms of systems (in particular information technology), and hence to date total enrolees amount to 3,624. Despite this, there is very strong demand for the scheme amongst MFIs. GTZ continues to support PhilHealth in smoothing out its internal systems, but substantial support is required direct to partner MFIs, in order to think through how to implement the scheme internally. It was agreed that PhilHealth would only set some rules and incentives in terms of its partnership with the partner organisation, but would not set rules in terms of how the organisation implements the scheme internally.

2.3 Policy Level, Regulatory and Supervisory Framework

Microinsurance is rooted in the Medium-term Philippine Development Plan 2004 – 2010 which considers poverty alleviation a principal development objective with the stated goal of giving the disadvantaged sector preferential access to social protection, safety nets, and access to financial services such as microfinance. In its circular 9-2006 of October 2006, the Insurance Commission recognizes that many microfinance institutions and mutual benefit associations have made insurance available to their members, it also recognizes the need for promoting the importance of microinsurance including defining its features, and ensuring that the delivery of microinsurance services is done in a safe and sound manner.

The insurance commission has created a two-tiered system which comprises insurance companies and mutual benefit associations.

The old capitalization requirement for a commercial insurance company was 100 million PHP (2.2 million US$) for life and non-life insurance companies. In 2005, the Insurance Commission has increased this to 1 billion PHP (22 million US$) for both life and non-life insurance companies, of which at least 50% is paid up capital.[19]

The insurance law also provides a specific legal framework for microinsurance in the form of Mutual Benefit Associations. A sub-category is the so-called “Microinsurance MBAs (MI-MBAs)”.[20] MI-MBAs must be licensed, are subject to supervision and need to have access to an actuary. MI-MBAs must have a minimum of 5,000 member-clients and serve only

[18] Herrin and Racelis (2003)
[19] Source: News paper article in Aug. 3, 2005
[20] Chapter VII of the Insurance Act (Sections 390 – 409)

members. MI-MBAs must maintain a Guarantee Fund (GF) equivalent to not less than 5 million PHP (111,111 US$) at all times. Every year after December 2006, they must increase their GF by 5 % of their gross premium collections until the GF reaches 12.5 % of the required capital for domestic life insurance companies.

On or before December 31, 2006, all existing MBAs – apart from the MI-MBAs - must have a Guaranty Fund of 12.5 million PHP (277,777 US$). Effective July 1, 2006 new MBAs must have a guaranty fund not lower than 25% of the minimum paid up capital of new insurance companies or Pesos 125 million. [21]

The IC is in the process of developing performance standards based on which MI-MBAs are to be monitored and supervised.

MBA licensing and supervision provides some protection for members since the supervision reduces the scheme's vulnerability to fraud and mismanagement. The IC has established a special MBA unit to supervise them.[22]

Nonetheless, in practice, the IC has not aggressively challenged non-registered MBAs due to its limited supervisory capacity, which raises doubts as to the degree of consumer protection under the current arrangements. Agents of MBAs do not require licences.

One problem with this arrangement is the high income-tax differences between commercial insurance companies and these second-tier institutions, which can be a disincentive to transform into a first-tier entity. For example, CARD MBA, which provided life insurance to more than 600,000 poor Filipinos in 2004 (over 1.6 million insured and their household members in 2007), originally planned to become a fully-fledged insurance company. This plan has not progressed.

The interviews revealed that some MBAs might be registered as such to take advantage of more favourable tax conditions (regulatory arbitrage). Plus, some MBAs are not in the best of financial health, possibly due to mismanagement, among other reasons. In recognition of these problems the IC has adjusted the MBA regulation (Circular 9-2006) and plans to strengthen its supervision of MBAs.

Owing to the objective of a more efficient and safe insurance and microinsurance provision, the IC has taken steps to strengthen the regulatory and supervisor framework. Among others, the two largest cooperative insurers CLIMBS and CISP are under-going a reform and

[21] Insurance Commission Circular 2-2006, dated April 24, 2006.
[22] In 2001, eighteen out of the – at that time - 32 licensed MBAs (56 per cent) were inspected on-site.

merger process. A risk-based capital framework has also been introduced recently under Insurance Commission Memorandum Circular 11-2006 dated December 8, 2006.

Insurance Commission Circular Letter 33-2006 dated September 22, 2006 defines the Standard Chart of Accounts for use by Life Insurance Companies and MBAs starting January 1st, 2006, to align with current accounting standards.

Circular Letter 35-2006 dated October 23, 2006 requires the submission of Minutes of Meetings, biographical data of members of the Board of Directors/Trustees, list of officers to promote good governance and transparency.

Circular Letter 40-2006 dated December 15, 2006 directs life insurance companies and MBAs to conduct an inventory of all insurance products; mandates the thorough review of the actuarial assumptions in developing the insurance products to determine their viability considering changing market interest rates and increasing operating costs and requires the issuance of a certification that for still viable insurance products, premium rates are still adequate and actuarial assumptions used are still viable. For products that are no longer viable a commitment is asked for that selling of the products shall be stopped immediately.

Box 5. Agent Requirements

In the Philippines, the Insurance Commissioner (IC) licenses agents that have fulfilled certain criteria such as paying a registration fee, passing an exam, and having no criminal record. An agent has to be a private person. Several MFIs in the Philippines partnered with Cocolife to insure more than 300,000 poor households although these MFIs are not registered as agents. They contract the insurance as a group insurance on the name of the MFI and do not formally appear as an agent. By doing this, they sell Cocolife's products but do not receive a commission. Instead they load the net premium charged with an administration fee that is paid by the client to the MFI at the start of each loan.

Source: Technical Assistance for the Promotion of Microinsurance, The Experience of Opportunity International, Richard Leftley (2005)

According to the information of one commercial insurer, the current regulatory framework for commercial insurers does not hinder microinsurance provision, a statement that would have to be verified in detail at a later stage.

Insurance provision by commercial insurers can be hindered by regulations such as policy requirements, agent regulations, claims or settlement procedures. The IC's circular 9-2006 states that "microinsurance business" refers to insurance business activity for the disadvantaged. It refers to MBAs as microinsurance providers but clearly says that the regulations may also be valid for other types of microinsurance providers for example for commercial providers. However, the implications of this rule for insurers are not yet clear.

2.4 Support to Microinsurance

There are a few support institutions engaged in promoting microinsurance in the Philippines, among those the one with most relevance is RIMANSI. The other actors mentioned below play a minor role.

Networks

A young network of MFI-based MBAs called RIMANSI spurs microinsurance development in the Philippines dynamically. The CARD institutions network was instrumental in establishing RIMANSI. Eight MFIs are the founding members.[23] It provides package-type assistance to MFIs interested in setting up an MBA (see Box 6). A second package is also planned which aims at longer-term assistance, capacity building and product development such as health or long-term savings among other support areas.

Box 6. RIMANSI assistance to MI-MBA

Assistance under "Services Package 1" (a service package 2 is planned) includes assistance in terms of

- market research
- planning the conversion into the new structure
- establishing the business plan
- registration with the Securities and Exchange Commission (SEC) and IC
- obtaining the licence to operate from the IC
- conducting the actuarial study
- installation of a simple Management Information System (from CARD MBA)
- assistance during the initial phase of operation

Source: RIMANSI Brochure "Innovative risk management Protection for the Economically Challenged Sector

According to Leftley (2005), the MFI and Business Development Provider Network APPEND is also involved in the promotion of microinsurance. Its involvement mainly consisted in facilitating linkages with CocoLife Insurance for its member MFIs such as TSKI.[24]

Reinsurers

There were two national reinsurers in the Philippines: Universal Reinsurance Corporation and Malayan Reinsurance Corporation as mentioned above. These have merged into the

[23] ASKI, CARD Rural Bank, CARD MBA, CARD NGO, Kasanyangan Foundation, Inc. (KFI), People's Alternative Livelihood Foundation of Sorsogon, Inc. (PALFI), Rural Bank of Talisayan, Inc. (RBT), USWAG Development Foundation, Inc.

[24] ILO Microinsurance Case Study N° 11, R. Leftley, Technical Assistance for Microinsurance

Universal Malayan Reinsurance Corporation. CISP uses Universal Re for risks over PHP 100,000. PAKISAMA MBA is reinsured by Interpolis Re, a reinsurer established by the Dutch Rabobank.

Commercial Insurers

Some MFIs or MBAs state that they receive assistance from commercial insurers. Sun Life assists ASKI MFI which acted as its insurance agent before establishing an MBA, a process which is almost concluded. Sun Life has agreed to continue some assistance until the new MBA is ready to operate on its own. According to the ILO Inventory, Negros Women for Tomorrow Foundation and Cebu Microenterprise Development Foundation are also "reinsured" by a commercial insurer, the latter with Mercantile Life. It is however unclear which form these arrangements have.

Capacity Building and Technical Support

Information on capacity building in microinsurance is scarce and apparently, it is not yet systematically and massively provided. The Insurance Institute for Asia and The Pacific (IIAP) for example carries out agent's qualifying examinations. However, information on training for microinsurance in general is scarce.

However, a few indications on the on-going support were found. The International Cooperative and Mutual Insurance Federation (ICMIF) provide support to CISP. RIMANSI provides capacity building support to its affiliates. PAKISAMA MBA receives assistance from Agiterra, a Dutch insurer.

Opportunity International (OI), which has been partnering with MFIs as said above, also provides hands-on technical assistance for microinsurance. It has capacitated the MFIs to develop a microinsurance product. This product was offered to a commercial insurer which entered into a partnership with these MFIs. OI has assisted the MFIs, and spurred their learning process, in areas such as market research, marketing, product design, claims management, negotiation with insurers and structuring partnerships. OI linked them with a commercial insurer, Coco Life. In the Philippines, OI has technically assisted several members of the APPEND Network such as TSKI, OMB and KMBI.[25]

Capacity Building and technical support for MBAs and other microinsurance providers is required in all areas which RIMANSI offers such as actuarial services, IT solutions, and training and coaching for. Beyond that, those areas where OI has been active are also relevant, such as partnering with insurers.

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[25] TSKI (Taytay Sa Kauswagan, Inc.), Opportunity Microfinance Bank (OMB), Kabalikat Para Sa Maunlad Na Buhay Inc. (KMBI)

Last but not least it is also important to increase the microinsurance know-how of policymakers, supervisors and other stakeholders.

Research

General research, market research[26] and statistical analysis of data e.g. to establish mortality tables are important tools for the development of microinsurance in any country. Especially if one wants to motivate commercial insurers, which may have the power to massively provide insurance. To engage themselves in microinsurance, information is a crucial motivational instrument for commercial insurers. In the Philippines, networks such as OI and RIMANSI have mainly been assuming this task.

The Philippine Institute for Development Studies (PIDS) provides research support to many areas, among others microinsurance, however, it needs additional resources as its own corporate funds are spread over a wide area of research on various development issues.

International Development Partners

As of March 2007, two international development agencies have been providing assistance to microinsurance development. Canadian Cooperative Agency is providing support to RIMANSI; a first project phase of two years has ended in February 2007 and the second phase has just started.

The second development agency with a microinsurance project is the Asian Development Bank (ADB). When the mission took place, ADB was in the process of approving a new project component with the NCC for one million US$ and the support to the Insurance Commission in terms of regulatory and supervisory support for microinsurance, the support of people's financial literacy and training for microinsurance.

Previously, the International Labour Organisation supported microinsurance to some extent, e.g. by issuing an inventory but to date no on-going support was found.

3. Key Findings and Recommendations

3.1 Key Findings

(1) Microinsurance is a powerful tool to give the disadvantaged sector - such as poor households and owners of micro and small enterprises - access to social protection through

[26] When some members of APPEND approached a commercial insurer in 2002, they had been offered a term life insurance product with a high sum insured and premium which was not suitable to their type of client. When Opportunity International stepped in and helped them to carry out market research and product development, they could make a strong case to insurance providers which ultimately resulted in a partnership between Cocolife Insurance and these MFIs.

financial services and the integration with public health insurance schemes. As a tool for poverty alleviation, it is a stated policy goal in the Philippines.

(2) The demand for microinsurance in the Philippines is not measured in terms of the size of the market and the detailed features of demand. However, practitioners acknowledge that the disadvantaged population segments, which in the Philippines account for more than half of the population, demand a whole range of products for life- and non-life insurance and health services. In terms of demand for health insurance, CARD MBA, the largest MFI in the country and the first KaSAPI partner with PhilHealth, conducted an internal survey of its members. It asked its 30,875 members who had no health insurance coverage whether or not they would like to acquire PhilHealth members: 85% said yes. Of this sub-group, 86% said they were willing to pay the current premium of 1,200 PHP per annum.

(3) Microinsurance in the Philippines has a number of innovative and promising features such as

- a regulatory framework developed by a visionary Insurance Commission which is continuously being adapted;
- different types of microinsurance providers which are rapidly growing whilst aiming at sustainability;
- a dedicated microinsurance network contributing to innovations and expansion in the Philippines and the region;
- traditional insurers such as MBAs and Cooperatives that are forced to merge and consolidate or commercial insurers slowly moving into microinsurance;
- a emerging microfinance industry which plays a proactive role in promoting microinsurance by either establishing microinsurers or channelling microinsurance products on behalf of a commercial insurer,
- an increasingly competitive microfinance[27] and insurance sector which motivates MFIs to diversify their products and services[28] and commercial insurers to go down-market; and provides a large potential for linking both financial services;

(4) PhilHealth has made substantial progress in terms of enrolling those defined as poor (or indigent), as the problem of high health care costs has become a major issue on the overall

[27] The client base of MFIs is estimated to be approximately 1.5 million.
[28] Some non-bank MFIs are profitable and plan to use part of their surplus for new social services such as health, maternity or education.

political and the welfare agenda.[29] However, in order to achieve its mandate of universal coverage, PhilHealth is attempting more aggressively to reach out to informal economy workers. It should be noted that this effort is unprecedented and is chartering new territory: whilst almost all countries with systems of social health insurance and a large informal economy face the same problem, none have solved it without the use of substantial state subsidies which currently is probably not feasible in the Philippines. There are very few commercial health service providers in the Philippines: several have ceased to provide health insurance, and those that do target the middle and upper classes are not interested in the disadvantaged or informal sector. The KaSAPI initiative – though still at a very early stage and struggling with many difficulties – is a promising approach worth to be further promoted.

(5) The development of broad-based and sustainable microinsurance services requires significant investments in human, organizational and institutional capacities at all levels. There are several providers (MBAs, MI-MBAs, cooperative insurers or commercial insurers) as well as products and distribution mechanisms. The new provider type MI-MBA has rapidly expanded over the past years. However, their sustainability is a major challenge for the coming years.

(6) Significant technical and financial assistance is required to broaden the scope and massively provide microinsurance in the Philippines at all levels. Support at meso level (financial infrastructure for microinsurance) and donor support for microinsurance in the Philippines is particularly scarce compared to the important role meso level institutions can play for leveraging the development of microinsurance providers and public goods such as research and information. At micro level, microinsurers and intermediaries need support in staff training, product development and setting-up systems and processes. [30] Compared to the scope of the challenge and to what has been invested in the support of microfinance over the past two decades, the present availability of assistance through international development agencies is very limited.

(7) Life insurance is relatively well-developed in the Philippines compared to other insurance product lines. Microinsurance coverage, sometimes mandatory, has improved in the life lines. However, the diversity and scope still has a huge market potential (according to the IC, the estimated coverage is less than 20 % of the potential demand). Life products are a good starting point for both providers and clients to get acquainted with insurance services for the poor.

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[29] At least 25% of the population remains without health insurance, and some estimates put this as high as 40%.

[30] These improvements have considerable impact on cost-effectiveness and pricing of insurance services for the ultimate benefit of the insured.

(8) As far as non-life products such as asset insurance, weather and crop insurance, and especially health services are concerned, the picture is not equally optimistic. Those products and service lines require significant investments in research and the development of innovations. The providers and intermediaries face a steep learning curve which requires intensive capacity building and also financial investments.

(9) An estimated 76% of the population are already enrolled into PhilHealth. It provides important basic health services countrywide. Almost all those without insurance are in the informal economy. The benefits are equal inpatient benefits for all except the poor who receive additional outpatient package. However, in many cases the benefit package is insufficient to cover all the costs, and hence there is scope for additional micro health insurance products or similar benefits to support patients. PhilHealth's KaSAPI program is a promising start but the low number of 13 participating MFIs and approximately 4,000 enrolees should be expanded. Cooperation with PhilHealth can make use of the structures of MFIs (flexible payments, piggy-backing the information data base of MFIs, health official in MFI, mandatory enrolment etc.).

3.2 Recommendations

Microinsurance should become an integrated part of the strategy of German and Philippine, Development Co-operation in the focal area „Sustainable Economic Development. Owing to the objective of this mission, the team recommends that the German Development Cooperation develops a new "Microinsurance Innovations Project (MIP)" to support microinsurance. The MIP should include the following features (see Annex 5[31]):

- First phase of three years (plus second phase in case of positive evaluation)
- Objective: Increase number of people with access to microinsurance by a number defined in baseline studies at the beginning of project implementation.
- Target Group: Disadvantaged sector, informal sector
- Partners: IC, NCC, RIMANSI, PhilHealth (possibly others such as Microfinance Council of the Philippines, Insurance Providers, reinsurers, Capacity Building Institutions, German Development Cooperation partners, other development partners, international networks)

[31] Presentation at mission debriefing with partners on 4th April, 2007 at the Insurance Commission

- Provision of Technical Assistance (TA) in the form of long- and short-term advisors, domestic and international networking (e.g. workshop, seminars), research studies and the support of capacity building.
- Intervention areas/strategies (level and some examples):

  (1) **Macro level:** Promotion of dialogue and learning, reform agenda and other policy issues (subsidised programmes, taxation etc.), financial literacy, consumer protection

  (2) **Meso level** (financial infrastructure): Research, transparency, product development, tools development and their institutionalization, reinsurance

  (3) **Micro level (providers and intermediaries)**: Institutional development, pilot projects in selected regions, product development, delivery channels

  (4) **Others:** Facilitation of co-funding and networking, client issues (e.g. demand issues, transparency (through entities at meso level)

The detailed intervention areas at the above levels should be defined in an appraisal mission in the second half of 2007.

During the preparatory phase, a first set of activities (e.g. demand studies) to prepare the smooth start of the project in 2008 should be planned.

The project should be planned and implemented in close cooperation and complementary with the interventions of other development partners such as ADB and CIDA and with the local partners such as IC, RIMANSI and NCC. The promotion of private public partnerships e.g. with German or international insurers, reinsurers or training institutes (PPP) should also be discussed during appraisal.

Annex 1 - List of Persons/Institutions Met

N°	Person/Function	Institution	e-mail/Address
1.	Camilo Casals, Advisor for Business and Organizational Development	RIMANSI (Risk Management Solutions, Inc.)	milocasals@yahoo.com rimansi@yahoo.com
2.	Luville Marin, Junior Development Officer	RIMANSI	rimansi@yahoo.com
3.	Virgenia Sto Nino, Board of Director	Alalay Sa Kaunlaran Sa Gitnang Luzon, Inc. (ASKI-MBA)	www.aski.com.ph
4.	August Pascual, Claims Officer	Alalay Sa Kaunlaran Sa Gitnang Luzon, Inc. (ASKI-MBA)	
5.	Maricel Barro, General Manager	Kasagana-ka Development Center	
6.	Dimples Navarro, Accountant	Kasagana-ka Development Center	
7.	Francisco Josef, Conservator	Insurance Commission of the Philippines	fejosef@yahoo.com
8.	Edgardo Garcia, Executive Director	Microfinance Council of the Philippines	ed.garcia@microfinancecouncil.org
9.	Eiichi Sasaki, Financial Sector Specialist	ADB	esasaki@adb.org
10.	Richard Leftley, President	Micro Insurance Agency, Head Office	richard.leftley@microinsuranceagency.com
11.	William Martirez, Country Manager	Micro Insurance Agency, Philippines	iloilo.mph@gmail.com
12.	Romerico Rianzares, Institutional Sales Manager	Sun Life Financial	rrian@sunlife.com
13.	Ma. Lourdes Mendoza, Institutional Sales Manager	Sun Life Financial	lmend@sunlife.com
14.	Basilio Rodriguez, Jr., Consultant	TSPI Development Corporation	bmrodriguez@tspi.org
15.	Kenichi Hirose, Social Protection Specialist	ILO	hirose@ilo.org
16.	Evangeline Escobillo, Commissioner	Insurance Commission	oic@pldtdsl.net
17.	Anja Gomm, Project Manager	GTZ SMEDSEP Trade Project	anja.gomm@gtz.de
18.	Axel Weber, Social Protection Specialist	ADB	aweber@adb.org
19.	Michiel van Auwera, Social Protection Specialist	ADB	
20.	Heinrich Berg, Team Leader	Technical Assistance to Health Sector Policy in the Philippines	heinrich.berg@gtz.de

N°	Person/Function	Institution	e-mail/Address
21.	Gilberto Llanto, Senior Research Fellow	Philippine Institute for Development Studies (PIDS)	gllanto@mail.pids.gov.ph
22.	Michael Adelhardt, Program Manager	GTZ Health Program	michael.adelhardt@gtz.de
23.	Joselito Almario, Director	National Credit Council	itoy_ph@yahoo.com
24.	Joechem Lange, Country Director	GTZ Philippines	joechem.lange@gtz.de
25.	Juliana Hinterberger, Project Manager	GTZ Water Project Manager	juliana.hinterberger@gtz.de
26.	John Owens, Chief of Party	MABS/DAI/USAID	

Annex 2 - Matrix on International Microinsurance Assistance in the Philippines

International Development Assistance in Microinsurance at end of March 2007							
No	**Agency**	**Intervention Areas**	**Partners**	**Regions**	**Amount**	**Status**	**Duration**
1	Canadian Aid (CIDA)	Support to the network of MBAs to establish new MBAs	RIMANSI	Nation-wide		On-going in second phase	
2	Asian Develop-ment Bank (ADB)	a) Regulation and Super-vision b) Financial literacy c) Capacity Building	NCC IC RIMANSI	Nation-wide	1 million US$	Under preparation; approval in mid 2007	
3	ILO	Inventory of Micro-insruance Studies				terminated	
4	Australian Aid	Support to MFIs and MBAs	Opportunity International MBAs and MFIs			To be VERIFIED	

Annex 3 – Integration of Microinsurance in different Development Areas

Against the background of **financial systems development (FSD),** microinsurance is part of the range of financial services demanded by poor households. The objective is to make the financial system “inclusive” in the sense that poor households are also served with adequate financial services. A commonly accepted key strategy to enhance sustainable economic development and alleviate poverty is to make financial systems more inclusive, for example by improving access to savings and credit services amongst under-served population groups.

In part, poverty stems from the fact that low-income households and markets do not have the same opportunities to finance investments, accumulate capital or protect their assets including human assets. The poor’s heavy reliance on informal financial services - such as moneylenders, under-the-mattress savings and mutual assistance societies - can be inefficient and expensive, and may even exacerbate poverty. The FSD perspective is a market logic, under which microinsurance provision should be cost-covering and market based. Some commercial insurers like AIG Uganda, CocoLife in the Philippines or the Brazilian insurance industry have entered this new venture with promising results. However, microinsurance as part of financial systems development logic also comprises other provider models which strive to be cost-covering, though possibly they are a non-profit type of organization.

Some commercial insurers and also policymakers still tend to believe that providing insurance cover to the poor is the responsibility of the state, and in practical terms, it is impossible to ensure poor people on a cost-covering basis. They suspect that poor households either cannot pay for their insurances, or the informality of their living situation makes them unattractive as clients. This is because they do not have formal employment, have no identity card or are illiterate. However, in fact, many state-run social protection schemes in developing countries have severe weaknesses. Often, the targeting of these schemes is ineffective and they are poorly run. The poorest segments do not always benefit from the subsidy, while people who could afford to pay for their insurances often find ways to access these benefits. In general, governments have made little effort to shift the burden of risk-pooling to market-led schemes; and the commercial insurers seems to have little incentive to seek out this market segment.

As far as the second viewpoint social security is concerned, microinsurance is defined as series of public measures to compensate for the absence or substantial reduction of income from work resulting from contingencies such as sickness, maternity, employment injury, old age or death; and as the provision of healthcare and benefits for families with children.

Indeed, in many developing countries, under both approaches neither governments nor insurance companies have been particularly effective in extending insurance coverage to people in the informal economy. On the one hand, public social security schemes, if available, are delivered through formal sector employers, approaches which do not reach unorganized workers, both employed and self-employed, in the informal economy. On the other hand, some insurers are beginning to notice the vast market of low-income households, but numerous obstacles need to be overcome if they are to offer microinsurance effectively and efficiently in terms of regulatory frameworks, distribution systems, products and capacities at all levels of the insurance system.

Semi-formal and informal microinsurance providers such as funeral associations, cooperatives and mutuals have tried to fill this gap for many years. Increasingly, both governments and international development assistance agencies have discovered these institutions as drivers for a more inclusive financial systems and improved social protection. But they also look at creating incentives to motivate commercial insurers to down-scale to lower market segments while at the same time improving their social security systems.

For these new approaches, we hardly find a well developed institutional landscape supporting microinsurance in any country. This support infrastructure comprises of reinsures, actuaries, networks, market researchers and capacity builders. The fact that framework conditions such as public policies, legal and regulatory stipulations and the capacity of policymakers and other authorities are not suitable to boost the development of broad-based pro-poor oriented insurance services adds to the problem.

From the perspective of the health sector, perhaps the major issue in the Philippines (and also in many other countries), is how to ensure access to services for all populations segments including the informal sector. The price of medicines and hospital services in the Philippines is high relative to countries at similar income levels. As a result, improving insurance coverage in a broad sense is seen as fundamental to deliver the health solutions which already exist, and which can solve the majority of health problems. Furthermore the close, two-directional links, between ill-health and poverty[32] means that health issues have been put high up on the development agenda (see MDGs – 3 out of 8 goals are health related).

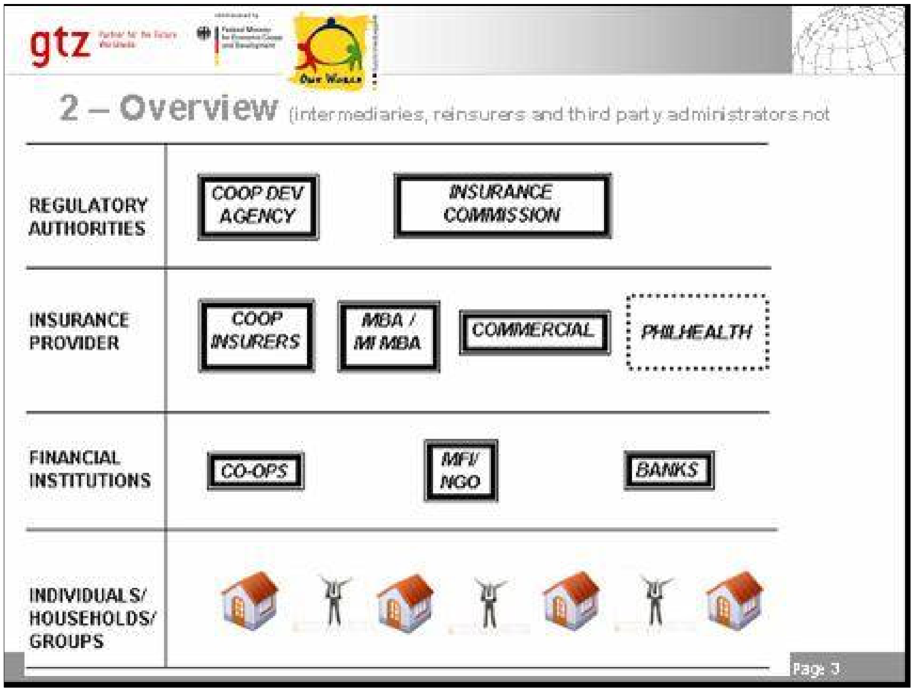
[32] Ref: "Macroeconomics and Health: Investing in Health for Economic Development". Report of the Commission on Macroeconomics and Health. World Health Organization 2001

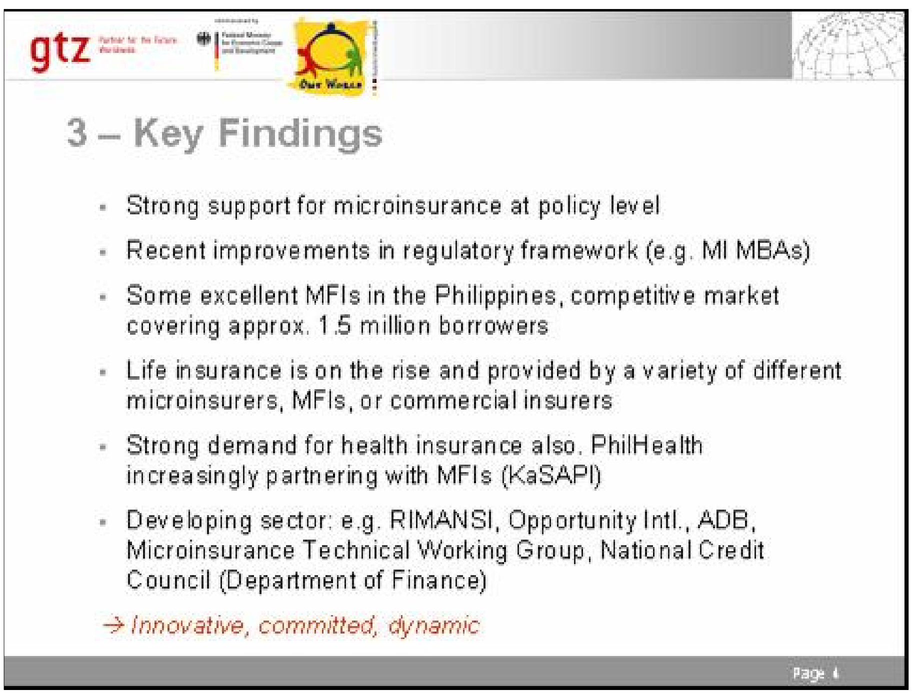
Annex 4 - List of MBAs registered with Insurance Commission

As of end April 2007 there are 22 licensed MBAs:

1. Armed Forces of the Philippines MBA
2. CARD MBA
3. Manila Public School Teachers Association
4. Bureau of Jail Management & Penology MBA
5. Novo Ecijano Teachers MBA
6. Rural Bank of Talisayan MBA
7. ASKI MBA
8 Public Safety Mutual Benefit Fund, Inc.
9. Philippine Public School Teachers Assoc (PPSTA)
10. Government Employees MBA
11. MERALCO Mutual Aid and Benefit Association
12. Camarines Sur Teachers Assoc Mutual Aid System (CASTEA MAS)
13. Kasagana-ka MBA
14. Fire Services Mutual Benefit Association Inc.
15. Postal Services MBA
16. Knights of Columbus
17. Manila Teachers Mutual Aid System
18. Praxis Fides Mutual Benefit Association, Inc.
19. Philippine Association for Vocational Education, Inc. (PAVE)
20. PAKISAMA MBA
21. Ilocos Sur Teachers Association (ISTA)
22. Tulay sa Pagunlad, Inc. (TSPI)

Annex 5 – Presentation at Mission Debriefing 4th April 2007


gtz
2 – Overview (intermediaries, reinsurers and third party administrators not
REGULATORY AUTHORITIES
COOP DEV AGENCY
INSURANCE COMMISSION
INSURANCE PROVIDER
COOP INSURERS
MBA / MI MBA
COMMERCIAL
PHILHEALTH
FINANCIAL INSTITUTIONS
CO-OPS
MFI/ NGO
BANKS
INDIVIDUALS/ HOUSEHOLDS/ GROUPS
Page 3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3 – Key Findings
Strong support for microinsurance at policy level
Recent improvements in regulatory framework (e.g. MI MBAs)
Some excellent MFIs in the Philippines, competitive market covering approx. 1.5 million borrowers
Life insurance is on the rise and provided by a variety of different microinsurers, MFIs, or commercial insurers
Strong demand for health insurance also. PhilHealth increasingly partnering with MFIs (KaSAPI)
Developing sector: e.g. RIMANSI, Opportunity Intl., ADB, Microinsurance Technical Working Group, National Credit Council (Department of Finance)
→ Innovative, committed, dynamic
Page 4


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4 – Challenges
High demand for insurance in Philippines, amongst disadvantaged groups.
Reform agenda (policy, regulatory, supervision)
New providers / intermediaries face steep learning curve
Sustainability of existing and new microinsurance providers
New products need to be developed (e.g. health, crop, pre-need)
Page 5


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4 – Challenges (2)
Awareness creation, customer education, with respect to insurance
Improve existing, and develop new distribution mechanisms
Develop financial infrastructure (capacity building, reinsurance, networks, etc.)
Improve transparency and research (public goods)
International networking to learn / share good practices
→ Technical assistance and funds
Page 6


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5 – Proposal
"Microinsurance Innovations Project"
First phase of three years ...plus…
Objective: Increase number of people with access to microinsurance by …
Target Group: Disadvanted sector, informal sector
Partner :
- IC
- NCC
- RIMANSI
- PhilHealth
to be defined: MCP, Insurance Providers, reinsurers, Capacity Building Institutions, German DC partners, other development partners, international networks…
Page 7


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5 – Proposal (2)
Intervention areas/strategies:
(1) Macro level
- Promotion of dialogue and learning
- Reform agenda (sequencing?)
(2) Meso level (financial infrastructure)
- Research (demand, …)
- Transparency
- Product development …including health
- Tools development and institutionalization
(3) Micro level: e.g. institutional development (through meso level?)
(4) Others
- Facilitation of co-funding and networking
- Clients (e.g. demand issues, transparency (through meso level?)
Page 8


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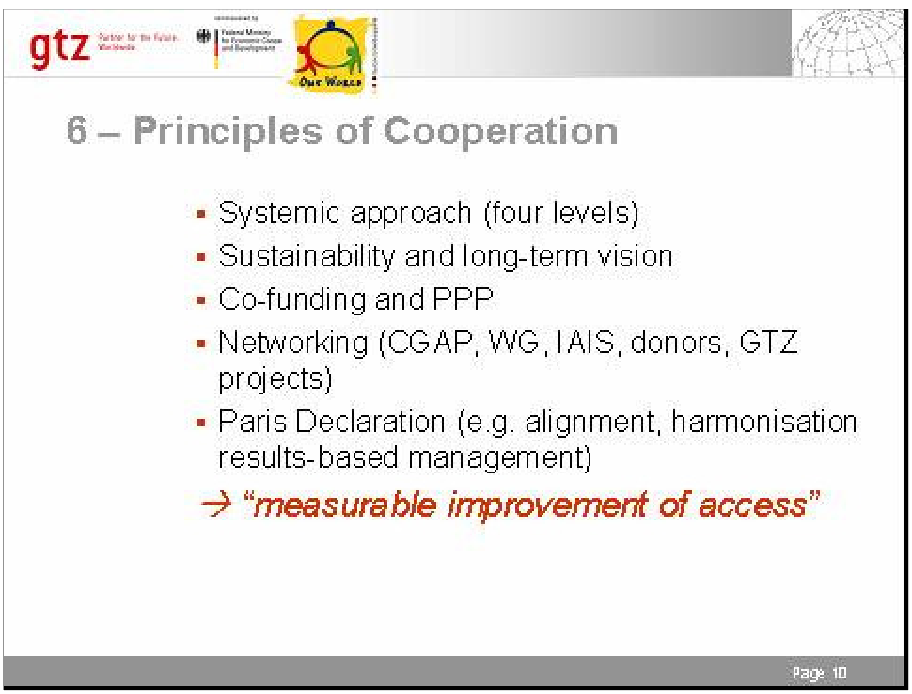
Our World
5 – Proposal (3)
▪ TA in the form of
- Long-term and short-term advisors
- Domestic and international networking (e.g. workshop, seminars)
- Research studies
- Capacity building
→ Flexible and partner-oriented assistance
Page 9


gtz
Our World
6 – Principles of Cooperation
▪ Systemic approach (four levels)
▪ Sustainability and long-term vision
▪ Co-funding and PPP
▪ Networking (CGAP, WG, IAIS, donors, GTZ projects)
▪ Paris Declaration (e.g. alignment, harmonisation results-based management)
→ "measurable improvement of access"
Page 10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7 – Next Steps
Proposal to German Federal Ministry for Economic Cooperation and Development (BMZ) - April
Mission Report – (May 2007)
Bilateral Government negotiations (June 2007)
Full-fledged project appraisal???
Start 2008
Intermediate measures???
Project structure and activity planning 2008
→ Mutual information
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8 – Discussion
Validation
Inputs
Questions
THANK YOU!
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