Asia Learning Sessions and Public - Private Dialogue (PPD3) On Inclusive Insurance for SMEs

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Documentation Report

GIZ RFPI Asia
Asia Learning Sessions and Public-Private Dialogue (PPD3) On Inclusive Insurance for SMEs
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<th>Abbreviation</th>
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<tr>
<td>A2ii</td>
<td>Access to Insurance Initiative</td>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>Agri</td>
<td>Agriculture</td>
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<tr>
<td>APEC</td>
<td>Asia-Pacific Economic Cooperation</td>
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<td>BMZ</td>
<td>German Ministry for Economic Cooperation and Development</td>
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<tr>
<td>CAR</td>
<td>Cordillera Autonomous Region, a name of a province in the Philippines</td>
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<tr>
<td>CLIS</td>
<td>Cebuana Lhuillier Insurance Solutions</td>
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<tr>
<td>DRI</td>
<td>Disaster Risk Insurance</td>
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<td>DRIM</td>
<td>Disaster Risk Insurance Manual</td>
</tr>
<tr>
<td>FRC</td>
<td>Financial Regulatory Commission of Mongolia</td>
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<tr>
<td>GOE</td>
<td>General Operating Expense</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
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<td>GIZ</td>
<td>German Development Cooperation</td>
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<td>IAIS</td>
<td>International Association of Insurance Supervisors</td>
</tr>
<tr>
<td>IBSL</td>
<td>Insurance Board of Sri Lanka</td>
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<tr>
<td>IMRI</td>
<td>Integrated Mineral Resource Initiative</td>
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<tr>
<td>ISA</td>
<td>Insurance Supervisory Authority of Vietnam</td>
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<tr>
<td>LGU</td>
<td>Local Government Unit</td>
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<td>MBA</td>
<td>Mutual Benefit Association</td>
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<td>MI</td>
<td>Micro Insurance</td>
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<td>MFI</td>
<td>Microfinance Institution</td>
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<td>MEFI</td>
<td>Mutual Exchange Forum on Inclusive Insurance</td>
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<td>MENA</td>
<td>Middle East North Africa Region</td>
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<td>MNOs</td>
<td>Mobile Network Operators</td>
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<td>MSME</td>
<td>Micro Small Medium Enterprises</td>
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<tr>
<td>NatCat</td>
<td>Natural Catastrophe</td>
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<tr>
<td>Negosyocare</td>
<td>Business Care</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<tr>
<td>OJK</td>
<td>Financial Services Authority of Indonesia (Indonesian: Otoritas Jasa Keuangan)</td>
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<tr>
<td>PPD</td>
<td>Public-Private Dialogue</td>
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<tr>
<td>RIA</td>
<td>Regulatory Impact Assessment</td>
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<tr>
<td>RFPI Asia</td>
<td>Regulatory Framework Promotion of Pro-Poor Insurance Markets in Asia</td>
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<td>RSC</td>
<td>Regional Steering Committee</td>
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<td>SECP</td>
<td>Securities and Exchange Commission of Pakistan</td>
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<tr>
<td>SUCs</td>
<td>State Universities and Colleges</td>
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<td>SME</td>
<td>Small Medium Enterprises</td>
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<td>SMEWG</td>
<td>SME Working Group</td>
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<tr>
<td>VC</td>
<td>Value Chain</td>
</tr>
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Introduction

The SME sector is considered the ‘engine of growth’ in most economies in Asia. Micro and SMEs compose 97%-99% of total enterprises in the APEC region, and contributes more than 50% to the GDP (China, Indonesia, Japan, Korea, and the United States) and to employment creation. However, despite the huge economic relevance of SMEs, access to financial services remains a perennial problem. Aside from credit-life and other traditional insurance products such as fire and medical reimbursement, there are no available insurance products that are tailored-fit to the value chain and distinct characteristics of SMEs. Proportionality of regulations to SMEs, including the use of digital platforms and technology, remain an issue to the regulators.

The Public-Private Dialogue (PPD3) in Ulaanbaatar, Mongolia zoomed in on the theme “Inclusive Insurance for SMEs”. The Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia), the Access to Insurance Initiative (A2ii) and the Financial Regulatory Commission (FRC) of Mongolia jointly organized the event.

Following its mandate from the German Ministry for Economic Cooperation and Development (BMZ), the GIZ regional program on RFPI Asia has created in 2013 the Mutual Exchange Forum on Inclusive Insurance (MEFIN), a platform for peer-to-peer learning among insurance regulators in Asia. Six pioneer member-countries have decided to transform MEFIN into a Network which allowed knowledge exchange and dialogue with the insurance industry through Technical Working Groups and Public Private Dialogue (PPD) sessions. The MEFIN Network was officially launched on February 2016 in Ho Chi Minh City.

Two PPD dialogues had been carried out in Manila and in Hanoi on July 2016 and March 2017, respectively. The PPD brings together to a panel discussion format the regulators and industry leaders from 7 member-countries of MEFIN to discuss good practices, lessons and next steps in regulations, business models and consumer protection. The PPD1 in Manila focused on Proportionality practices in regulation, while the PPD2 in Hanoi discussed regulatory practices and business models on Micro Health and Disaster Risk Insurance.
Objectives

It is the intention of Public-Private Dialogue 3 to ensure that there is an

a. Exchange of knowledge on initiatives and progress of inclusive insurance for SMEs in MEFIN members and other countries in Asia;

b. Understanding of good practices on policy and regulations and business models on inclusive insurance for SMEs and its application to agriculture, climate change and mining related enterprises; and

c. Opportunity to discuss ways forward of MEFIN members to address the issues and challenges in SME insurance.

Participants

Insurance regulators and industry leaders from the seven member-countries of MEFIN are the core participants of the PPD. Insurance regulators in Asia who are members of the IAIS were also invited to the event through A2ii.

Ninety-four local participants signed up for the event. These are participants from the Finance Regulatory Commission of Mongolia, Mongolian Insurance Association, Ulaanbaatar City Insurance, Ministry of Mining and Heavy Equipment, and other private sector insurance organizations. Twenty-seven representatives of insurance commissions, associations and companies from seven Asian member countries that are Mongolia, Indonesia, Nepal, Pakistan, Vietnam, Sri Lanka and the Philippines were present during the event. The Regional Steering Committee of MEFIN Network served as panelists during the plenary sessions. RFPI Asia, the MEFIN Network Secretariat, led by Dr. Antonis Malagardis provided the keynote presentations and technical inputs.

A total of 123 individuals joined in the sessions. During the opening preliminaries, the moderator presented the registration statistics on the number of participants per country as follows:

Indonesia - 2  
Vietnam - 3  
Nepal - 4  
Pakistan - 3  
Sri Lanka - 3  
Philippines - 3  
Mongolia - 94

Please refer to Annex A for the list of local and foreign participant.
Program Design and Agenda

Public-Private Dialogue 3 is designed to tackle the pressing and vital issue of Inclusive Insurance for Micro Small and Medium Enterprises or MSMEs. This is also a theme of particular relevance to Mongolia, the venue for the one and a half-day event. “Asia Learning Session and Public-Private Dialogue 3 on Inclusive Insurance for SMEs”, was formally opened when each of the four organizers welcomed the participants. This was followed by an overview of risk management issues of SMEs covering the two subjects of SMEs as a Priority Sector of Development and SME Risks and Coping Mechanisms.

There are five panel discussions and each session started with a keynote presentation. To set the tone of the discussion the presentations focused on five fundamental topics germane to the SME insurance programs and are moderated by insurance specialists of RFPI Asia and A2ii:

Panel session 1: Value-chain approach to SME insurance - Mr. Dante Portula
Panel session 2: Agriculture SME insurance - Ms. Shayne Bulos
Panel session 3: Impact of Climate Change on SMEs - Mr. Jimmy Loro
Panel session 4: SME Insurance in the Mining Sector (Mongolia spotlight) - Dr. Antonis Malagardis
Panel session 5: Regulatory Initiatives and Challenges on SME Insurance - Mr. Oscar Verlinden

After each presentation, the keynote speakers engaged the insurance regulators and practitioners in an in-depth dialogue on the topic at hand. The panelists were comprised of public officials of insurance commissions and leaders of industry associations or organizations representing the private sector. MEFIN member countries were represented in the conversations, to provide in-depth perspective as well as give a broadened view of the topic.

Attendees actively participated during the open forum of each session to interact with the keynote speaker and panelists. An interpreter bridged the language gap throughout the sessions by translating English presentations to Mongolian and Mongolian discussions to English. The closing event was an insightful presentation of the Synthesis by Dr. Malagardis and a noteworthy closing message by Dr. Sodnomdarja.

Please refer to Annex B for the Program Agenda and Annex L for the Program Flow. The welcome messages, highlight of presentations and key discussion points are presented in the succeeding pages of this report.
Dr. Davaasuren Sodnomdarja  
Chairperson, Financial Regulatory Commission of Mongolia

Dear Guests; Representatives of financial and insurance regulatory authorities, Policy-makers, Regulators, and Supervisors, Participants of Asian insurance markets and investors, Ladies and Gentlemen,

Inclusion. This is the new vision of global financial market development.

Finance is an essential function for performing any economic activity and inseparable part of our daily lives. Regardless of one’s social standing, level of education, race, religion, age, gender, residence, business industry or revenue, everyone should have access to financial services. Not only that, one should have convenient and easy access to a range of financial services tailored for everyone’s needs and with the best possible conditions.

Unfortunately, in Asia - where 60% of the world’s population live, access to financial services remains relatively limited, in particular, for the poor, low and middle income people, owners of small and medium enterprises, household product manufacturers, farmers, and fishermen. In Mongolia, herders living in remote regions have minimal access to information of financial industry and hardly possess any understanding of securities market, and remain unfamiliar with insuring their livestock against risks of natural disasters; severe weather conditions such as snow blizzard and drought which are common occurrences in Mongolia.

As of end 2016, over 20% of Mongolians were considered to have been under the poverty line. According to quarterly report published by the National Statistical Office, the number of catastrophe incidences, crime and accident rates have risen over the past few years and the estimated damage to individuals and organizations resulted from these incidents has also increased.

In accordance with “Sample Survey on Small and Medium Enterprise Owners” conducted by the Mongolbank last year, the survey identified unemployment, poverty, political instability, foreign exchange rate fluctuations, bureaucracy in public services, inflexible loan conditions, and high interest
rates and commissions as common risk factors and barriers to profitable business. This indicates that insuring one’s property against potential risks is the practice that needs to be adopted by individuals and small and medium enterprise owners.

Ladies and Gentlemen, First of all, I would like to extend my thanks to the German Agency for International Cooperation (GIZ) for giving us the opportunity to co-host the third Public and Private Dialogue of the ‘Regulatory Framework Promotion for Pro-poor Insurance Markets in Asia’ programme and this event here in Ulaanbaatar. I also wish, on this occasion, to emphasize that convening these meetings in the form of Public and Private Dialogue was a well-suited decision that gives the countries involved in this programme the opportunity to share their experiences, exchange insights and discuss shortcomings of their respective markets.

Insurance industry regulators, insurance companies and intermediaries, and individuals must all come together to build trust in market and work in partnership towards establishing a system that further enhances inclusive insurance, and guards consumers against risks.

The Financial Regulatory Commission of Mongolia has been making substantial efforts in implementing a number of activities with respect to enhancing inclusive insurance. Within the scope of “RFPI ASIA” programme implemented by GIZ, we have so far determined the activities related to inclusive insurance and corresponding requirements, conducted an assessment of regulatory framework of inclusive insurance and a research on products and services.

This programme helped us to define characteristics of inclusive insurance as “voluntary insurance scheme designed for every individual; consists of simple and comprehensible policy with low premium”. The low and middle income people and SME owners likely buy insufficient insurance coverage due either to their financial incapability, or mis-designed product along with under-developed distribution channels. Hence, the Financial Regulatory Commission is working vigorously towards achieving its short-term goals to develop an inclusive insurance prototype product tailored for the target recipients and promote to expand distribution channels for inclusive insurance, enhance public financial literacy and establish improved regulatory framework fostering the growth of insurance industry.

Ladies and Gentlemen, The regional development and financial well-being of population in Asia directly depends on our capacity as regulators to implement sound policies and regulations. Despite our social and cultural discrepancies, we are a team working towards a common vision. Thus, I would like to encourage everyone to actively engage in this dialogue and openly share your valued views and experiences. I wish you success and prosperity in your future endeavors. Thank you.

Mr. Daniel Passon
Country Director, GIZ - Mongolia
Transcribed excerpts from the welcome message of Mr. Passon

Good morning to everyone. Dr. Davaasuren, representatives of insurance companies, public regulators, organizations, guests, ladies and gentlemen. GIZ is pleased today to jointly organize with the Financial Regulation Commission of Mongolia, and the Access to Insurance Initiative. The theme of this dialogue is very relevant and timely, not only for Mongolia, but for most Asian countries, as micro and small and medium enterprises, are regarded as engine of growth and most of the region and economies of the world.

Mongolia is a nation of rich ancient history and amazing historical and cultural heritage. As you have maybe experienced, also, special climates. Mongolia is one of the world’s richest countries in terms of mineral resources, with significant deposits of coal, copper and gold. Mining is the most important sector in terms of economic development in Mongolia, and its share in GDP stands at 20%. Developing the mineral resource sector can lead to substantial progress and widespread prosperity for the population as whole. In order to develop a mineral resource sector and at the same time diversify the economy, the country needs foreign direct investment and technical expertise.

SMEs are backbone of the economy and Mongolia SME are no exemption when it comes to their role in economic development. Small companies generate around 20% of Mongolian GDP and provide employment to almost 750,000 people, representing around 70% of the national workforce. That’s why I appreciate it that today event covers priority areas of the country’s development. The Regulatory Framework Promotion of Pro-poor Insurance program or RFPI has been working with FRC since 2013, and the same declaration was signed by regulators of six Asian countries, signifying their support to the development and promotion of inclusive insurance as a strategy to reduce poverty and support development and promotion in economy in the region.

Mongolia was one of the signatories of the said declaration which eventually gave birth to the Mutual Exchange forum on Inclusive Insurance or MEFIN. The formation of MEFIN as a platform for exchange and knowledge and experiences was supported by GIZ and ADB. With the support of GIZ, MEFIN has grown, with more numbers of countries joining the network. The MEFIN also includes the private sector, thus opening the door for meaningful public private dialogue, like what we are doing here today. The support that GIZ is extending for the FRC and private insurance companies and promotion of inclusive insurance is in synergy of GIZ Mongolia’s intervention such as Integrated Mineral Resource Initiative or IMRI or other programs such as energy, education and legal sector. These GIZ interventions in Mongolia and in other countries are very much in line with the company’s vision of shaping a future worth living around the world.

For this event we have chosen a format of public private dialogue. This has been proven as an effective methodology both at international some national level, based on the experience shared by various development partners. Its effectiveness has also been explored by enabled policy makers, development
practitioners and private sector stakeholders and proved the business environment enables sector competitiveness at the local level. MEFIN used this format at the regional level to promote inclusive insurance markets with the sharer and adaptation of country's specific business models and regulations. Through public private dialogue, we hope that the lessons and experiences on inclusive insurance for micro and small-medium private enterprises in Mongolia will be delivered to the other MEFIN countries and learn from them. May this dialogue spark a vital and deeper understanding practices, policies and regulations and business model on inclusive insurance for micro and small medium enterprises and their application to every culture, climate change, mining and enterprises, not only in Asia but in other regions as well. Thank you all for coming here to wonderful Mongolia and again, a warm welcome from the GIZ side.

**Dr. Antonis Malagardis**

*Program Director, GIZ RFPI Asia*

Transcribed excerpts from the welcome talk of Dr. Malagardis

Ugluunii mend. Sain baina uu?

Good morning. To all of you, first of all, I would like to thank very much the chairperson, Dr. Davaasuren of FRC, for making this event possible. We met in PPD2 in Hanoi last March and we thank you for accepting the proposal to organize this PPD in your country. Daniel Passon, our GIZ Country Director, I am very happy to see here. Oscar Verlinden, representative of the Access to Insurance Initiative, of which is one of the organizers of the event. Regulators from seven countries, industry representatives again from seven countries, it is very important that we have two persons from each of the insurance of each of the countries, this allows us to have a very fruitful exchange of good practices, not just best practices but good practices that can be applied in the context of each country. I believe there are also representatives from other public agencies in Mongolia, welcome to them, GIZ colleagues, ladies and gentlemen. A warm welcome to the third public private dialogue, organized in Mongolia.

I believe that since the set-up of the MEFIN in 2013 in the Philippines, it allowed us to bring in a new platform for the exchange, first among the regulators for peer-to-peer learning. Later on in 2014, we were able to bring together the private sector, which is a unique platform. There are other platforms like the A2ii, which brings together exclusively the regulators. On the other hand, a network based in Luxembourg, brings together the private sector. The popularity of this RFPI program and the MEFIN, is in bringing together the public and private sectors for an exchange of practices and looking into business models that work.
We have to provide affordable products. Most people think insurance is only for the rich, this is also in Mongolia, and they have this perception. There is no real perception of risk protection. Also it should be understood that inclusive insurance is not a dole-out. People can always, except for the poorest, still contribute a small amount and this is very important to understand. So I’d love this to be done on both sides, on the awareness side and on the product development side that creates business. This inclusive insurance is not anymore a corporate social responsibility, it started like this, but now it became a full-fledged business. Thus, the private sector is interested to step in. Major companies in the world like Allianz or Munich, have an interest to promote their brand with the long-term goal of bringing in these clients. If they are small, they only buy small and cheap product, but if they believe and trust these big companies, there will be the next generation who will be able to pay much more and even pass the good brand and name to their children. This is of course the long-term perspective of insurance.

I will give you an overview of how we can shape this public private dialogue and why are we doing it this way. We have five plenary sessions; we will try to approach the MSME from different perspectives. We will have these perspectives based on the different context of each country, different definitions of SMEs, different products available, or new products that tailor to the needs of the SMEs. We will try to bring this together and have a lesson learned that could be shared in various countries.

We will start with the value chain analysis because it is important to see the SMEs through the value chain. Very often we take only one part of this value chain and use the product itself and we forget the possibilities and opportunities. My colleague Dante Portula will lead this session. Then we move towards the agricultural insurance. My colleague, Shane Bulos will look into SMEs in the area of agriculture. It is very important to have an exchange here as we see most of the countries and small enterprises are in agriculture or even rural sector. Then we will move on the issue of disaster risk insurance, and of course climate issue is important. We will provide you some input from the work that has been done by my colleague, Jimmy Loro, who will present the disaster risk insurance manual. This manual will also be presented here as a training in Mongolia on Thursday afternoon and whole Friday. You see, this is also practical way of dealing with disaster risk in particular for MSMEs and try to tailor this to the frame of Mongolia in terms of decision-making and awareness. This leads to the question of ‘how can we reach the people outside of Ulaanbaatar?’ In Ulaanbaatar it’s easier but we have an outside population spread outside the country. How efficient can be the awareness campaign and who leads this awareness campaign, and in particular when it come to disaster risk insurance.

Then we will move in a session on the area of mining, here we are looking at the small enterprises that are located around the mining areas. GIZ has a major program in the last 7 years, its called IMRI, Integrated Mineral Resources Initiative. We are working closely to make it more efficient, including the allocation of resources. In working together with an already existing program, we will look at the study here in Mongolia on the need of SMEs and in particular the mining area. This study was done in 2014 and updated in 2016. We will provide you some inputs and after that we will have a discussion.
The last session will be taken care of by A2ii, by Oscar Verlinden who will look into regulatory issues. A2ii is a platform that looks into bringing together the perspective of regulators, since we have so many regulators that will be definitely a very important session.

I hope that all of this would inspire us further so we can move safely in implementing what we are discussing today. Designs are very fine, it’s fine to have regulatory frameworks, but of course we need to implement them. At the end, we need to assess their impact. That’s the most difficult part of the work of GIZ and development cooperation, to look at the impact. The impact is not only on the regulatory level, the impact is actually at the end such as the household, the family, are they better off with these products? In particular, the small enterprise, are they better off after having bought insurance instead of getting a loan? So with this, I hope that this will raise your interest in staying with us until tomorrow afternoon. Thank you all and I wish all of us success in this PPD3. Thank you very much.

Welcome Remarks – Mr. Oscar Verlinden

Lead for the MENA Region, Access to Insurance Initiative (A2ii)

Transcribed excerpts from the welcome talk of Mr. Oscar Verlinden

Thank you all, as well as to Dr. Davaasuren for the opening remarks. My name is Oscar Verlinden and I recently joined the Access to Insurance Initiative. I’ve been introduced to some of you in the room but I very much look forward to know the rest of you over the course of the next few days. I’d like to say thank you to GIZ Mongolia and GIZ RFPI and also thank you all to the MEFIN members for making today’s event.

Just a few words about the Access to Insurance Initiative, the Access to Insurance Initiative is a global partnership, it’s a platform for peer to peer learning amongst insurance supervisors. That means building capacity and help sharing of good or best practices among insurance supervisors and also assisting the capacity building amongst the members.

Tomorrow I will be hosting our session about the regulatory aspects of extending insurance coverage to MSMEs and we have participants from Pakistan, Philippines and Indonesia. So I’m very much looking forward to that and the interesting discussions that will happen today and tomorrow. Thank you very much.
Overview of Risk Management Issues of SMEs

SMEs as a Priority Sector of Development

Mr. Dante Portula, Senior Advisor, RFPI Asia

Mr. Portula succinctly conveyed the message on the significance of SMEs especially in Asia, stating that an estimated 420 to 510 million MSMEs are mostly in Asia. Those SMEs play a major role in economic development, being an engine of growth. He presented studies showing that formal SMEs contribute to up to 45% of employment and up to 33% of GDP of developing countries. In the APEC region, SMEs account for around 90 percent of all businesses and employ as much as 60 percent of the work force. SMEs development is a global priority agenda. In the G20, a Subgroup on SME Finance is responsible in implementing a Framework on SME Finance Innovation Fund. On the other hand, the APEC SME Working Group developed a SMEWG Strategic Plan for 2017-2020. Moreover, the ASEAN SME Agencies Working Group is working closely with the private sector ASEAN SME Advisory Board in finalizing the ASEAN Strategic Action Plan for SME Development (2016-2025) or SAP SMED 2025. As it is most economies have SME Medium-term Development Plan. The SMEs face a myriad of risks ranging from hazard risks, financial risks, and operational risks to strategic risks. The table below displays the risks that SMEs face:
Table 1 - Risks faced by SMEs
Please refer to Annex C for the presentation file on SMEs as a Priority Sector for Development.

**SME Risks and Coping Mechanism**

Dr. Antonis Malagardis, Program Director, RFPI Asia

Presenting the study results of the *SME Insurance Demand*, Dr. Malagardis pursued the discussion on risks that SMEs face and their coping mechanisms. He painted the scenarios SMEs in the Philippines, in Mongolia, in Ghana and South Africa have to contend with. He discussed the most important risks they need to cover, their coping mechanism and their perception of insurance. He started by giving a background of the SME landscape in these countries.

In the Philippines, micro, small and medium enterprises (MSMEs) comprise more than 99 percent of registered businesses. They provide 65 percent of total employment and contribute 35 percent of the country’s gross domestic product (GDP). As of 2012 count (Department of Trade and Industry), there are 944,897 business enterprises operating in the Philippines. Of these, 940,886 are MSMEs and the remaining 0.4 percent (4,011) is comprised of large enterprises.

In Mongolia, as per World Bank 2010 report, there are 60,317 micro enterprises, 5,772 small enterprises, and 6,384 medium-sized enterprises or a total of 72,473 MSMEs. The largest category being the micro enterprise which generates 88,00 employees, while the medium-sized enterprises generates 126,00 employment seats. The small enterprises on one hand contribute 37,000 in employment figures.
Ghana defines its MSMEs as presented in table 2.

### Table 2 - Definition of SME for Ghana and So. Africa

**Ghana & South Africa**

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<tr>
<th></th>
<th>Ghana</th>
<th>South Africa</th>
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<tbody>
<tr>
<td></td>
<td>Micro, Small and Medium Enterprise</td>
<td>Micro, Very Small, Small and Medium Enterprise</td>
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<tr>
<td>Micro</td>
<td>1-5</td>
<td>&lt;5</td>
</tr>
<tr>
<td>Small</td>
<td>6-29</td>
<td>20-49</td>
</tr>
<tr>
<td>Medium</td>
<td>30-39</td>
<td>50-200</td>
</tr>
<tr>
<td>Micro</td>
<td>$10k</td>
<td>&lt;R200k</td>
</tr>
<tr>
<td>Small</td>
<td>$100k</td>
<td>R3m-R32m</td>
</tr>
<tr>
<td>Medium</td>
<td>$1m</td>
<td>R5m-R64m</td>
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</tbody>
</table>

As presented, in these nations, the SMEs are the engines of growth. They are vulnerable as well to many risks and they have different approaches to cope with and mitigate these risks. Their acceptance and perception of insurance varies as well. These are highlighted and summarized in the following table:

### Table 3 - Comparative Study: Risks faced by MSMEs in The Philippines, Mongolia and Ghana

**Comparison of the studies**

<table>
<thead>
<tr>
<th>Risk Coping Mechanism</th>
<th>Philippines</th>
<th>Mongolia</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings &amp; insurance</td>
<td>Usually understand insurance need after the damage has already occurred (2014); participants borrow from banks (43%) and their relatives (2016)</td>
<td>Agriculture sector: Water and disease management, innovation system</td>
<td></td>
</tr>
<tr>
<td>Health, fire, loss of income</td>
<td>Business property, private health and injury risk</td>
<td>Agriculture sector: Production risk, market risk, and enabling environment risk</td>
<td></td>
</tr>
<tr>
<td>Perception of insurance</td>
<td>Form of protection (60.8%); Investment (26%)</td>
<td>Insurance awareness has increased due to mandatory insurance (2014); Insurance is only beneficial if we received claim payment (38%) (2016);</td>
<td></td>
</tr>
</tbody>
</table>

Please refer to Annex D for the complete presentation of the topic.
Panel Discussions

Panel Session 1: Value Chain Approach to SME Insurance

Mr. Dante Portula, Senior Advisor, RFPI Asia

Mr. Dante Portula explained to the attendees the value chain approach and its benefits. He presented the definition espoused by Kaplinsky and Morris (2002: p 2), that a value chain is “the full range of activities involved in getting a product or service from conception, through the different phases of production (...) and delivery to the final consumer.” A VC considers the producer and product/service within the larger commercial context. For the finance sector, a VC is a provision of financial services based on the relationship between two or more actors in the value chain, either directly or indirectly. He showcased an example of a VC using a Coffee value chain map.

Table 4 – Example of a Value Chain Map
The understanding of the value chain concept is beneficial for insurers as the relationship of actors in the VC means potential partners. Thinking of perils to life, properties, and business continuity in the VC allows one to spot financial transaction points, identify potential aggregators and innovate its products and services. The value chain concept is beneficial for the regulators in order to spot bottlenecks in doing business and to create proportionate regulations to support innovation. For both the public and private sector, the VC is a helpful tool for dialogue and inter-agency cooperation.

Mr. Portula led the group in a quick exercise to spot the insurance opportunities in an agricultural sector value chain and in a mining sector value chain. He showcased examples of SME insurance products using the value chain approach, such as that of AXA Insurance and Cebuana Lhuiller Micro-insurance from the Philippines. For the Pakistan example, he featured the “Assan Tahafuz” or Easy Protection insurance product. Mr. Muhammad Ali Ahmed, Executive Director of EFULife provided on the ground insights and expounded on the details of the insurance product.

Please refer to Annex E for the presentation materials on the Value Chain Approach to Insurance

The panel discussion proceeded after the keynote presentation. The panelists for this first session are:

<table>
<thead>
<tr>
<th>Panelists for Session 1 - the Value Chain Approach to Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mr. Zaidi Syed Nayyar Hussain, Director, Securities and Exchange Commission Pakistan (SECP)</td>
</tr>
<tr>
<td>3. Atty. Ranil Angunawela, Director, Insurance Board of Sri Lanka (IBSL)</td>
</tr>
<tr>
<td>4. Mr. Muhammed Ali Ahmed, Executive Director, EFULife Pakistan</td>
</tr>
<tr>
<td>5. Ms. Tran Thi Thu Ha, Vietnam Women’s Union (VWU)</td>
</tr>
<tr>
<td>6. Mr. Edirisinghege Pubudu Wasawa Wimalaratne, Chief Operating Officer, Cooperative Insurance Company Ltd, Sri Lanka</td>
</tr>
<tr>
<td>7. Mr. Jesus Antonio Dosdos, Non-life Division Manager, CLIMBS Life and General Insurance Cooperative, Philippines</td>
</tr>
</tbody>
</table>
Mr. Portula engaged the panelists by asking them what are their reactions, their thoughts about the value chain approach in insurance. He also asked them how do they intend to bring it in the context of their own country, or how and where can they possibly apply the value chain.

Atty. Ranil Angunawela expressed that regulators are important part of the value chain. They are in the middle and they have a big role to play. It is important to bear in mind the entire process, and in their role as facilitator, to make sure client needs or policyholders are protected. According to Mr. Syed Nayyar Hussain, “We have to see the value chain as a natural focus of insurance needs. Flexibility is needed when issuing guidelines or regulations and should not compete but enhance the chain. Of importance are the insurance needs of the enterprises, normally in the informal sector, with less documentation, how do they quantify the risks and claims when documentation is a concern?”

Ms. Nguyen Hoai Thu for her part said that value chain in SME should be focused on the customer. It is the role of the regulator to find the bottleneck and make the regulation to ease out the difficulty. Ms. Thu mentioned that in Vietnam, the regulation on value chain is limited and they hope to learn from this PPD3 and from the experiences of others. Mr. Jesus Antonio Dosdos explained that in the Philippines there are 14,000 cooperatives, and 60% of these are SMEs. His organization, CLIMBS, address member protection, addresses the needs of the members, and offer credit loan protection programs. Members can acquire loan from the cooperative itself. As part of the growing expansion of CLIMBS, they go into life insurance, property and general insurance. They are also in the premium market and continuously try to complete the cycle to address all the needs of the cooperative members.

Mr. Muhammed Ali Ahmed elaborated that value chain as the name implies, needs to have value. Value can be created if all the aspects of the VC talk together as one. As a value provider, an insurer needs to
understand how they can come together with the products and services that are being offered to carry a value. As seen in the presentation the VC starts from idea generation down to the customer experience at the end. The insurer should not focus only on the product but on all parts of the process of the VC.

The MSMEs sector are financially vulnerable, they don’t have access to financial product, unless the insurer understand how the components of the VC can come together, then they cannot offer the best value, not just the product but the whole service aspect.

VC cannot be involved without involvement of technology. It can be small level of involvement or high inclusive level of involvement. Until that happens there will still be gaps. Technology could be an enabler, a catalyst. He called for insurers saying, “As insurers we need to have to a bigger vision to understand all aspects of VC not just insurance aspect.”

According to Ms. Tran Thi Thu Ha, the VC approach to SME will open a lot of opportunities because after 30 years they already have significant improvements especially on the quality aspect. At this moment, the Vietnam government’s priority is to develop the economy and focus on the back-up enterprises. In June 2017, the national government approved the law on supporting SME, the country is trying to enhance the start-ups especially those established by women. VC is important for SMEs in Vietnam because many SMEs meet difficulties and are exposed to lots of risks.

Representing Cooperative Insurance in Sri Lanka dealing with 10,000 societies 52% coming from SME sector, Mr. Pubudu Wasawa Wimalaratne emphasized that the biggest issue of VC is from the designing stage. Insurance companies should prepare their role as risk managers. They should cover from the first stage to the last stage. From the planning stage, then processing, then selling, up to releasing of goods to customers. So insurance companies have greater role, to be the risk management provider from A-Z, or a full cycle. The biggest challenge is to give this knowledge to MSMEs and the micro-sector.

Mr. Portula continued the discussion, asking country specific issues. To wrap up the dialogue the panelists were asked for their key take away from the discussions. Mr. Portula on his part said that value chain in finance is relatively new; it is a powerful tool to get a broader perspective of where the opportunities could come in. He appealed and encouraged everyone to try the exercise, to identify the perils, the financial transactions, the aggregators, the partners, and pinpoint the bottlenecks. Dialogue between the public and private sector should be continued to make this approach more effective.
Panel Session 2: Agriculture SME Insurance
Ms. Shayene Rose Bulos, Senior Advisor, RFPI Asia

Ms. Bulos showed an Asian Development Bank Study stating there are 2.2 Billion in Asia and the Pacific that relies on agriculture for their livelihood, that is 50% of the whole population of 4.5 Billion people. That 490 million people go to bed hungry at night, that is around 11% of the whole population. They go hungry because they cannot afford a meal. And meal becomes unaffordable to most because of the law of demand and supply – the demand is great, as we are growing to 5.3 billion people in 2050, or food production is becoming more expensive. And it can be both. Scarcity and price spikes are brought about by increased land degradation, post-harvest losses, fragmented supply chain, and of course, climate change. These factors can easily destroy affect crop growth and quality, livestock health, and pests. As a result, it is projected that in 2050, an estimated 25% of agricultural loss will be due to climate change.

She went on to discuss the hurdles confronting the industry, such as when the underwriters, run away from agri-insurance because it’s expensive. In fact, in the Philippines, to ensure that an insurer sustains the business, premium must amount to around 10-15% of the benefits. One that does not appeal to the target market. Thus, most farmers, one way or another, has to employ risk management methods other than insurance to manage his risk. Apart from that, he has to manage his cash flows, and manage growth. Ms. Bulos presented the factors for public-private partnership in agriculture insurance, as presented in the following table:

Table 5 - Agriculture Insurance Public-Private partnership

http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/Primer12_Agricultural_Insurance.pdf
The MEFIN countries’ insurance products was featured in the discussion for example Nepal’s Shikhar Insurance which has 15 types of crops and livestock insurance. Ceylinco General Insurance of Sri Lanka has a farmers insurance package, a livestock insurance, a Deewara Udana for fishermen, a support line and a comprehensive natural disaster cover for traders. For Mongolia, there is the Index Based Livestock Insurance Project. For more details on this topic, please refer to the power point presentation in Annex F on Agriculture SME Insurance.

The panelists for the second session are:

<table>
<thead>
<tr>
<th>Panels for Session 2- Agriculture SME Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Mr. Shreeman Karki, Director, Beema Samiti, Nepal</td>
</tr>
<tr>
<td>3. Atty. Ranil Angunawela, Director, Insurance Board of Sri Lanka (IBSL)</td>
</tr>
<tr>
<td>4. Mr. Dip Prakash Panday, CEO, Shikhar Insurance, Nepal</td>
</tr>
<tr>
<td>5. Dr. Watuthanthrige Chakrine Jagath Alwis, Director, Ceylinco General Insurance Ltd, Sri Lanka</td>
</tr>
<tr>
<td>6. Mr. Oyunbat Terbish, Director of Underwriting Department Agriculture Reinsurance Company, Mongolia</td>
</tr>
</tbody>
</table>

Ms. Bulos posed a question directed to the regulators: Agri-insurance is still a very challenging business proposition to pursue, we are aware of its importance but haven’t figured out the perfect formula to make it value adding to the farmers and to the insurers themselves. What are the innovative ways that the regulators try to pursue or develop agri-insurance in your markets?

Mr. Shreeman Karki started by saying “We are very interested with agri-insurance initiatives. We have the laws and directives and now an insurance company is launching a product. If there is a reason to change, we are able to change directives and make the directives favorable for business companies and farmers. We are working together to improve the insurance products. Beema Samiti has issued a directive in 2013 and now have seven insurance products”.

Ms. Bulos pursued the discussion by asking a Nepal private sector, Shikhar Insurance on the impact of the Beema Samiti directives to the industry. Shikar Insurance CEO, Mr. Dip Prakash Panday elucidated that agricultural insurance was not practiced before. In 2013, when the directives came, cattle insurance gave them an opportunity to improve the common practices among insurance groups. The main challenge was lack of confidence of general public on insurance companies as there were certain insurance groups who will insure but do not pay the claims. It’s a big issue in Nepal. When the directives came, the insurance companies started in the rightful way due to the government subsidy amount. When they analyzed, they found out there was a high cost in managing the products, “as high as Mt. Everest and as low as the sea level”.
The regulators pushed the insurers in getting statistics and providing services. So they then started collecting the statistics, which is very crucial to monitor the data. Now data is available, they are able to find new ways and have the right pricing. The insurance companies started paying claims, and slowly the farmers are starting to have confidence. The big challenge is to build that confidence among the general public. Generally, the decree that Beema Samiti issued forced insurance companies to provide agri-insurance products which in the end, was a very good move and has allowed the industry to expand to different insurance products.

Ms. Bulos transitioned the conversation to the regulators of Vietnam and to Sri Lanka for their innovative ways in advancing agri-insurance. Ms. Do Thi Hanh Quyen described that the Vietnam policy program for agriculture insurance started four years ago, which provides for livestock insurance and other agriculture insurance. Agriculture insurance is very new in Vietnam. From the agri programs, the ISA intend to draft a decree on agriculture policy to promote agriculture and subsidize premium. This is intended to subsidize to the poor and near poor of up to 90% premium, and up to 50% for the others. The agriculture insurance policy also allows insurance companies to expand up to 10% of their operation. To avail of the premium subsidy, companies need to comply with strict requirements.

On the side of Sri Lanka, Atty. Ranil Angunawela, clarified that in Sri Lanka, agricultural insurance is done by a separate government agency, an independent Insurance board, which does not fall under the regulators. They issue insurance policies to the famers and the farmers pay the premiums when they purchase insurance. The cost of premium goes into the payment of communication. The focus on providing agri-insurance is a government focus but regulators does not force insurance companies to go into agricultural products. According to Atty. Angunawela, “We believe in free market in the industry. Regulators see that free market is feasible and at the same time they ensure consumer protection in insurance products.”

Still from Sri Lanka, Dr. Watuthanthrige Chakrine Jagath Alwis sustained the conversation saying that agri-insurance, is subject to regulations of the Insurance board. For his company, he said “We have agriculture based insurance products for the last 20 years. We have mixed portfolio for agriculture
insurance. We have fertilizer insurance and for other crops. We have farmers package, we pay for educational expenses for the education of the farmers children like uniforms. Farmers have fuel expenses, and cattle that can be insured under the package. The government does not subsidize premium. We have insurance for SMEs, even micro businesses, like boutique or bicycle repair shop, including insurance for traders of which 50,000 are covered. As an innovative company, we continue to research. Three years ago we launched mobile insurance, to date, we have 1.2 M subscribers for the mobile insurance. Sri Lanka has 21 M population, with 19M mobile; mobile phone potential is very high compared to other products. We are using the mobile companies to distribute our product.”

Ms. Bulos led the discussion towards Mongolia, where Mr. Oyunbat Terbish reminded the participants that Mongolia is known for its livestock livelihood, it is very much part of their culture. The Mongolian herders may have different characteristics from livestock farmers from other countries.

He further explained their Index Based Livestock Insurance project. “Our project was implemented since 2006, but during that time there was a lot of reviewing if it is feasible and knowing if the herders will accept the product. There was a lot of educating and piloting. In 2010, a basic product design with certain thresholds was developed. Our product has three different layers, for the different risk players based on these thresholds. Different stakeholders finance the premium; there are the herders, the financiers and the government. After that threshold, they will not be paying the premium. At the middle layer you have the commercial layer, or participating insurance companies who pool their insurance premium income. Then the upper layer is subsidized by the government, which is also paying budget premium so they don’t have to face all the unknown losses each year”.

After this initial round, the floor was opened to the audience who actively asked questions to the different panelists. The regulators from Pakistan, Mr. Nayyar and Mr. Hasnat directed special interest on Mongolia and Nepal, respectively. RFPI keynote speakers, Dr. Malagardis and Mr. Portula, and Mr. Loro directed follow-up questions to Mr. Terbish of Mongolia on the issues of raising insurance coverage for herders, value chain insurance and impact of climate change. In addition, a Mongolian participant asked about the big earthquake in Nepal and wanted to know the lessons learned by the regulators and private sector as a result of this calamity. The panel discussion ended with the panelists giving their closing message as to their ways forward to advance the agri-insurance market.

In conclusion, Ms. Bulos synthesized the session by stating that regulators can motivate agri-insurers by forcing them or by inspiring them to do it on a voluntary basis. Awareness also is still very important. Public and private partnerships are important to pursue agri-insurance and the market-based insurance can also work. For value chain based financial insurance products, most of our insurers are still in the explorer stage, continually finding ways on how to utilize this. As they say there are no destinations, just milestones, so it’s a continuing process. She encouraged all participants to look at the future of insurance through futuristic eyes, like to reflect on or consider data mining, artificial intelligence and fill some gaps that have been recognized in this session.
Panel Session 3: Impact of Climate Change on Insurance

Mr. Jimmy Loro, Senior Advisor, RFPI Asia

Climate Change is one critical topic in this PPD 3. SMEs have significant contribution in terms of income, output and employment but the limited resources of MSMEs, particularly in many developing and emerging countries make them highly vulnerable to natural catastrophes or NatCat. Four out of five small and medium-sized enterprises fear the impact of climate change on their businesses. Some examples of impacts of NatCat on SMEs are the floods in Thailand in 2011 where 550,000 small businesses was affected, reaching to losses of THB 71.1 million/month and 2.32 million temporary jobs lost. In the Philippines, there was a 15% overall damages to the economy in 2013 due to Typhoon Haiyan.

Mr. Loro continued to show figures on the damages and losses of various sectors and of different countries due to NatCat. He presented the losses on Japan’s manufacturing sector and effect of floods on global supply chains such as price history of hard disc drive products.

The aspects of business affected by climate change are costs and pricing of inputs, health and well being of employees, sourcing inputs and other raw materials, production processes, demand products and services, cost of insurance and protection against risk, distribution, transport and access to market, business competitiveness and productivity, buildings and other infrastructure and the reputation, brand or image of the business. All these are affected, at varying degrees, depending on the country status whether emerging or developed. Of course the negative impact is higher for emerging countries. An important question then is how can insurance companies support SMEs? Table 6 illustrates the options for this.

Mr. Loro went on to discuss relevant aspects of disaster risk preparedness and among others presented the ideal response for managing risks due to climate change.

Table 7 – Ideal response to Managing Risks due to Climate Change
Existing SME insurance solutions for climate change was discussed, highlighting in particular the Negosyocare product of Cebuana Lhuiller Microinsurance.

For more discussion on the presentation on disaster preparedness and climate change please refer to the full presentation materials in Annex G. The panelists who joined the keynote speaker are as follows:

<table>
<thead>
<tr>
<th>Panelists of Session 3: Impact of Climate Change on Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Atty. Juan Paolo Roxas, Acting Microinsurance Division Manager, Insurance Commission, Philippines</td>
</tr>
<tr>
<td>2. Mr. Bhoj Raj Sharma, Insurance Expert, Beema Samiti, Nepal</td>
</tr>
<tr>
<td>3. Mr. Jonathan Batangan, General Manager, Cebuana Lhuillier Insurance Solutions (CLIS) Philippines</td>
</tr>
<tr>
<td>4. Mr. Lorenzo Chan, Jr., President and CEO, Pioneer Life, Philippines</td>
</tr>
<tr>
<td>5. Mr. Jakub Nugraha, Head of Microinsurance and Agriculture Insurance Division, PT Asuransi Central Asia, Indonesia</td>
</tr>
<tr>
<td>6. Mr. Vivek Jha, CEO, NepalLife Insurance</td>
</tr>
</tbody>
</table>

Given that Cebuana Lhuiller is one of the biggest distribution channels in the Philippines with direct SME contact, Mr. Loro asked Mr. Batangan, how is the trend of demand for natcat insurance against climate change among MSME's in the last 5 years.
Mr. Jonathan Batangan responded that Cebuana Lhuillier as the largest micro financial solutions provider is known as a pawnshop as well. Statistics show that growth year on year has generated over 8 million Filipinos covered. Disaster resilience is an advocacy of the company and that they are looking at it holistically. According to Mr. Batangan, “For Cebuana Lhuillier we’re looking at it in 4 tenets, preparedness, mitigation, response and recovery. In 2016 we launched disaster resilience forum with various stakeholders to promote micro insurance as a disaster-mitigating tool especially for vulnerable sectors. In 2017 we were able to focus on MSMEs, the agri and fisher folk and vulnerable communities. In promoting disaster resiliency through working with our partner, Pioneer Insurance, we provided 1 million Filipinos with free micro insurance coverage during the National Filipino Protection Day. This way we can promote micro insurance awareness so that they really feel what an insurance condition is”. Mr. Batangan showcased the details of their micro insurance program through a presentation.

Mr. Loro then proceeded to ask Mr. Jakub Nugraha about lessons learned in Indonesia specifically on their experience working with community organizations as a distribution channel. Mr. Jakub Nugraha elucidated to the participants that despite being prone to tsunami and earthquake, most Indonesians living in the coastal areas, still live there because they love it. Based on their experience, selling micro insurance is not easy especially to Indonesians living in these areas. They were finally able to sell insurance directly to them via a different approach. As a solution, they went through the value chain approach. They collaborated a capacity building project with one of the local NGOs. The fishermen were taught that to be resilient, they have to increase their income and build their micro business. They were further encouraged to increase the value of their business. Mr. Nugraha stressed that, “By making them as financially literate as possible, we are also more aware of what the people need and what are their obstacles. Our regulators also learned what their needs are, and what they should prepare to make this micro insurance acceptable for the farmers”. Mr. Nugraha shared that the various stakeholders are able to work together through the value chain approach, and the next challenge now is how to scale up.
Mr. Loro thanked him for showing not only how to improve in insurance but also adding value in the products. He then moved on to ask Mr. Vivek Jha about an interesting case in Nepal. “In reaching the population residing in rural areas especially MSMEs and the households in hilly areas, you indicated that your strength of distribution is with your agents of 15,000 warm bodies. You structured your commission scheme and also used technology. How do you plan to combine the use of agents and mobile technology to reach more rural areas and to establish a new business model for MSMEs on natcat insurance? Is this feasible given the current setup in Nepal?”

Mr. Vivek Jha explained that his company, NepalLife Insurance, has existed for 17 years and yet they are still starting with regards to rural insurance. In Nepal’s case they have experienced earthquakes and floods. Nepalese SMEs contributes to an estimated 14-16 % to the total economy of the country, with GDP of 19%, and employment around 18%. He then narrated what they did to penetrate the market. “We planned in phases, first we targeted the formal sector, the microfinance institutions, where lots of MSMEs are taking loans from. Initially the problem was that MFI’s didn’t want to sell our products because they are already offering their own products, which is insurance-like. But this was very expensive for the people. So we rationalized with the MFI’s how our products could be beneficial to the target group, because we are able to tie them up with medical facilities, death and hospitalization coverage. We showed the MFI’s that with what they are charging, they are saving a minimum amount but they are exposed because they do not have catastrophic coverage. We also shortened our processing time by connecting their system with ours. Whenever they give loans to their customers, their insurance triggers with our system, so immediately we have very minimum requirement for the processing”. According to Mr. Jha there is a further need to identify the scope by which they can make them interested to buy this product, to make it more meaningful for their kids and their families.

Mr. Loro transitioned to the Philippines and asked Mr. Lorenzo Chan of Pioneer Life, to share their lessons learned considering that their company has been providing natcat insurance for MSMEs since 2008 covering the effects of climate change. According to Mr. Lorenzo Chan, they began their foray into inclusive insurance, back when it was called micro insurance. Since 2008 they have been talking about helping 20,000 people, and henceforth they have doubled the volume. The program was really tested in 2013 and 2014 when the Philippines was hit with an earthquake and six successive typhoons. That wrecked havoc in the portfolio. They made sure to pay all proper claims, and because of that, the volume of people covered increased from 1 million to 2 million. This was a result of word of mouth when people talk to each other. These days they continue on that journey, to make it more accessible and affordable, easy to understand and simple to claim.

Mr. Loro thanked Mr. Lorenzo for his passionate work and opened the floor to questions from the audience. A participant representing Mongolian insurance industry posed this question to the panelists: “Micro insurance doesn’t cost much, but distribution is high. How do you distribute a product with low commission cost but high distribution cost? How do you do that given what is on the ground? Mr. Lorenzo Chan shared that micro insurance involves small coverages and hopefully affordable premiums.
The issue is whether or not its expensive or cheap but whether it is affordable to your target market. Partnering with distribution channels that is frequented by your target market is a key aspect to managing distribution costs. Mr. Jha shared that in Nepal MFIs or cooperatives are in the areas of MSMEs. What they did was to give commissions to the branch managers who in turn gave part of their commission to employees, to motivate that person to sell more. The volume of people is important in micro insurance, so if there are incentives it will be more profitable. Volume is critical. Dr. Malagardis suggested that for Mongolia since there are 10,000 pawnshops, they can explore the possibility of this being a distribution center. In the case of Indonesia, where there are 16,000 islands and pawnshops have 4,000 branches distribution is a gargantuan task. They just have to think long term, invest in the beginning, visit the areas to educate people and set-up a website.

**Panel Session 4: SME Insurance in the Mining Sector**

**Dr. Antonis Malagardis , Program Director, RFPI Asia**

For this session, Dr. Malagardis gave an overview of the findings of RFPI 2014 market study. He talked about the Mongolian initiatives and policy challenges in SME development, and the highlights of regulatory impact assessment.

The 2014 market study, with updates in 2016, has revealed that contracted and temporary workers are not usually covered by social insurance. That only 5% of the SMEs that have participated in the survey have voluntary insurance. There is a certain level of dissatisfaction with the public insurance system and there is a tendency of not trusting the insurance companies. Since the introduction of mandatory products, the awareness of insurance has increased but there is a lot of uncertainty on what kind of perils insurance products cover and their usefulness. Most SMEs only become aware of the necessity to protect them against risk after the damage has already occurred.

In Mongolia, SMEs particular to the mining industry are constantly exposed to risks. These risks are environmental risks, including natural disasters; Employee risk management, such as maintaining sufficient staff numbers and cover, employee safety and up-to-date skills; Political and economic instability (domestic as well as foreign markets for exports); Health and safety risks.

According to the current regulation, only licensed brokers and agents can be distribution channels. However other future distribution channels in Mongolia can include the mining companies, banks, MNOs, NGOs and cooperatives and pawnshops.

Mongolia has no insurance products specially designed for SMEs. As of June 2017, the following inclusive insurance products are registered at FRC:

1. Children’s accident insurance, a product of Ulaanbaatar City Insurance LLC;
2. “EASY” ger, house, and fence insurance, a product of Monre Insurance LLC;
3. Comprehensive apartment insurance, a product of Khaan insurance LLC.
Changes in the regulatory environment can facilitate SME inclusive insurance. The table shows that regulations can be made to support inclusive insurance for SMEs:

Table 8- Regulatory Environment for Inclusive Insurance

<table>
<thead>
<tr>
<th>Regulations</th>
<th>How changes can facilitate SME inclusive insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance classification</td>
<td>Permitting bundled products improves access and market efficiency</td>
</tr>
<tr>
<td>Group insurance</td>
<td>Permits covering employees of SME easily</td>
</tr>
<tr>
<td>Claims Process</td>
<td>Alternative claims method can be effective</td>
</tr>
<tr>
<td>Distribution methods</td>
<td>Reaching the client by trusted organization vital</td>
</tr>
<tr>
<td>Sales Training</td>
<td>For Consumer Protection, important for distributor to know and explain product</td>
</tr>
<tr>
<td>Branches</td>
<td>There can be more cost effective ways of ensuring service to clients</td>
</tr>
<tr>
<td>Loss Adjusters</td>
<td>For simple products easier methods can be determined to settle claims</td>
</tr>
</tbody>
</table>

Please refer to the full presentation materials in Annex H. Mongolian panelists representing both the public and private sector sat down together to discuss Mongolian SME Insurance. The panelists are:

Panelists for Session 4: SME Insurance in the Mining Sector

<table>
<thead>
<tr>
<th>Panelist 1</th>
<th>Panelist 2</th>
<th>Panelist 3</th>
<th>Panelist 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Ulziibat Molomjamts, Director, Insurance Department, FRC, Mongolia</td>
<td>Mr. Zuunnast Tegshee, Senior Specialist, Mining Policy Department, Ministry of Mining and Heavy industry</td>
<td>Mr. Oybek N. Khalilov, CEO, Tenger Insurance Company, Mongolia</td>
<td>Mr. Mongolkhuu Galaarai, CEO, National Life Insurance Company, Mongolia</td>
</tr>
</tbody>
</table>

Dr. Malagardis prompted Mr. Mongolkhuu Galaarai to give his views on the life insurance benefit in Mongolia, more specifically on how to provide life insurance to micro enterprises. Mr. Galaarai gave a background of his company which started in 2007. According to him, when he started people were surprised and didn’t know what kind of business the insurance is. He shared; that even today, after 10 years, there is still some confusion as to what they are doing in Mongolia. When somebody understands the need, he then finds out what kind of insurance product he should avail. But in many cases, Mongolia is different from other island countries in such a way that Mongolia doesn't have much calamity. They experience troubles once in awhile but it not as significant. According to Mr. Galaarai, they need to
further educate the public on what risks are. At the moment, insurance is not inclusive for many people as insurance is still seen as a luxury product. “Making it inclusive is just like the awareness problem, where you need to orient the people” stated Mr. Galaarai.

Dr. Malagardis directed the discussion to Mr. Khalilov of Tenger Insurance to reflect on what is the key to awareness, and to integrate his presentation of SME Mining with the discussions on regulatory performance and of the National Life Insurance. Mr. Oybek Khalilov stated that micro insurance in Mongolia is not a new thing. In fact, Tenger is growing to be one of the largest insurance companies. In 2011 they went into healthcare insurance. Insurance has taken on the role forward, but then still the products were not profitable. One simple main aim therefore is to keep expenses down and get to a solution which can service massive volume of business and can be a flexible platform for the distribution. This can be done by improving efficiency of SME books through automation, by optimizing portfolio, underwriting tools and by expanding the multiline offering to current and new agents, brokers as well as alternative distribution channels.

Call Centers can also support SME strategy with the aim to improve customer experience and reduce GOE while maintaining the necessary level of flexibility and full compliance with corporate standards. There is also a need to minimize operational load via pre-underwritten, no-touch products and look to enhance innovative edge with the introduction of new industry specific multiline package products. For the Mining SME Roadmap, the mission is to “Bring healthier, more prosperous lives by keeping business, workers and drivers safer”. Insurance can support this mission with products such as for General Liability, Employment Liability plus Personal Accident or Compulsory Drivers Liability. The light at the end of the tunnel is that the SMEs adapt faster to regulatory changes, pay more attention to corporate governance and the legislation changes, all of which are positively correlated with insurance buying habits. Mr. Khalilov also emphasized the need to train risk engineers and the need for stakeholders to collaborate. For the full presentation, please refer to Annex I.

When asked for their parting thoughts, Mr. Ulziibat Molomjamts stated that having laws for financial inclusion is a plus factor. From the regulatory side, the questions should be, how we can support the insurance companies. It is also worth considering, what is the best and convenient way to distribute insurance products in Mongolia. Should it be through mobile phones, pawnshop, NGOs, or cooperatives? Mr. Zuunnast Tegshee, on the other hand mentioned that for mining he would like to see more insurance companies than banks.
Panel Session 5: Regulatory Initiatives and Challenges on SME Insurance

Mr. Oscar Verlinden, Lead for the MENA Region, Access to Insurance Initiative (A2ii)

Small and medium enterprises can be profiled as to having a high business turnover, high risk appetite, low or irregular income, low resilience to threats and disasters and low familiarity with insurance products. For SMEs, often the personal risks are equals to business risks. There are two approaches to increase insurance penetration to this vulnerable sector; these are the proportionate application of regulation and the complementary initiatives. For proportionate regulation, one method is to allow distribution channels to adapt. This is done by enabling distribution at scale, allow for innovative distribution channels, allow for financial advice at the level of the intermediary, allow for simple and flexible renewals and by experimenting with pilot programs. Secondly for the proportionate regulation is to allow for tailored product design. Here premium payments must be able to match income frequency. There should be an allowance for a comprehensive assistance to be provided in packaged insurance policies. This could come in the form of consulting services, business advice, network opportunities and business transition costs. Custom-made product design should also take into consideration or reflect religious and cultural preferences.

The third approach is to ensure high consumer protection while taking into consideration the following:

- Business risks, but consumer vulnerabilities
- Complaints mechanisms
- Ombudsman / Consumer representatives
- Set timeframes for claims settlements
- Monitor client value, qualitatively and/or quantitatively

For the discussion on complementary initiatives, please refer to Annex J. Panelists from Pakistan, Indonesia and the Philippines contributed to the exchange of experiences.

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<th>Panelists for Session 5: Regulatory Initiatives and Challenges on SME Insurance</th>
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<tr>
<td>1. Mr. Syed Nayyar Hussain, Director, Securities and Exchange Commission Pakistan (SECP)</td>
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<td>2. Mr. Kenn Ramirez, Channel Incubation Administration PruLife UK, Philippines</td>
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<tr>
<td>3. Mr. Yoga Prasetyo, Head of Credit Life and Emerging Consumers, Allianz Life Indonesia</td>
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Mr. Verlinden asked Mr. Yoga, about his job dialogue, which includes the words “responsible for emerging consumers”. He asked Mr. Yoga to describe Allianz Indonesia’s approach to financial inclusion and what he thinks about that.
Mr. Yoga explained that in Allianz Indonesia, they call the micro insurance as SME consumers. They want to do it in a more business like manner rather than CSR, this way they are forced to prove it in terms of business consideration. “In everything we do, it has a business consideration without leaving the social impact”. He continued, “Financial inclusion is something we have to do in our countries, Allianz and I believe it can be done if we achieve the skill, to achieve the skill we have to overcome the challenges”. He enumerated the challenges they encounter, first; they cannot use existing channel distribution, because it is very costly. The second challenge is that they deal with a market that is highly fragmented, particularly in Indonesia with its 17,000 islands. It is difficult to find one aggregator that can serve all consumers, unless it is a very large company. The problem with large companies is that they have their own business priority. The third challenge is the low awareness of people on the importance of insurance.

In order to overcome these challenges, Allianz decided to start its emerging consumer business; they call it harvesting the lowest hanging fruit. They go to the market with existing credit line products and modify the conventional credit line product to be more suitable for the MSME or the profile of micro insurance. Allianz currently have 60 MFI partners including cooperatives, banks and rural banks. They have more than six million customer base, of which more than 95% are women. “With this, we believe that we can convert the customer base into another micro insurance product, but the challenge is very different. We try to overcome the problem of awareness through field officers. When they visit rural villages, they will bring their smartphone, and the people can see the educational movies to increase awareness about insurance. That's basically what we are doing right now”.

Mr. Verlinden went on to ask Mr. Syed Nayyar Hussain. “You mentioned that there has been quite a lot of micro insurance or financial inclusion regulation in Pakistan. Do you believe the current status quo is conducive to MSME insurance or are there improvements?”

According to Mr. Nayyar, in Pakistan there is a national financial inclusion strategy or framework. For the life insurance needs of the MSMEs sectors, there are already a lot of compulsory group of insurers. SECP has made recommendations on how to improve their coverage. This is with regards to the life insurance needs of the MSME sector. He said that in yesterday’s session it was mentioned that life insurance companies are making products for the SME sector. In addition to that, the SECP has a designed compulsory health insurance scheme for the SME sector. They intend to send the scheme to the ministry, for the changes in the labor laws.
Mr. Verlinden follows up with a question: You mentioned that there are a lot of other actors involved for instance with the labor law, is there sometimes a lack of coordination among bodies? Is that a problem in Pakistan or is the collaboration done quite well? Mr. Nayyar explained that with the adoption of the financial inclusion strategy in 2014, which was pushed by the finance minister, there were different tiers of committees. The top tier committee is comprised of the governor. With this they have seen the improvement in terms of cooperation between the government, so yes there has been improvement.

Mr. Oscar switches to asking Mr. Kenn Ramirez, if PruLife, does a lot of work on micro insurance or how the company picks them up. Mr. Ramirez began to share how Dr. Antonis Malagartis and Mr. Jimmy Loro visited their office and impressed him with their passion for micro insurance. He also decided to visit the RFPI Asia office, met Dante Portula and the rest of the team. He shared that hitherto, they sold insurance products to middle class people because they did not have the logistics to distribute and service small premium policies to the mass market. However, with the inspiration from RFPI Asia and the rapid advancement of technology, such as e-payment systems and banks, they were able to service these small premium policies. As with regard to SMEs, they provide a big potential in the further development of the insurance market in the company.

PruLife UK is heavily involved in corporate social responsibility, however they have always been reactive rather than proactive since they did not have products for MSMEs. With the advent of digital community-based insurance distribution system, and mass based e-payments, this has allowed them to develop smaller premium products that can be afforded by SMEs.

During the open forum Atty. Ranil of IBSL asked the panelists this question: If you look at disasters, previously they were just once in a lifetime or sporadic events, now they are increasing. At what point
do you think does insuring SMEs or persons in demographically vulnerable areas become economically unfeasible, what do you propose to do in that situation?

Mr. Nayyar: Is it economically sustainable to cover the risk for SMEs prone to disaster risk? The disaster risk policy of the government should serve as anchorage. There used to be a national disaster risk management policy, under that policy, insurance has to come in.

Mr. Ramirez: Spreading the risk is the answer to that. The beauty of the Philippine situation is that we are ready to cooperate with each other. We accept that spreading the risk is good way of mitigating the risk.

Mr. Yoga: From a product point of view, In Allianz we do not have a product closely related to that, but on a corporate level, we have our responsibility to take care of cases, it will be our CSR department that will proactively respond to this.

For the takeaway, Mr. Nayyar stated that regulators should trigger the growth of SME sectors. Mr. Yoga expressed that we should learn from the past. That one approach is not fit for all, and that regulator and companies can work together where they can decide what to do. Mr. Ken extended his appreciation and gratitude to the organizers of this event.

Mr. Verlinden closed the session by enumerating the key discussion points just covered like the importance of making the business case viable, keeping the distribution cost low, the importance of a strong institutional cooperation with strong direction from high levels of government, the test and refine approach is a good way to slowly enter market and create products. He ended by saying “The value of a strong enabling relationship between industry and regulator is of extremely high value”.

Synthesis and Next Steps

Dr. Antonis Malagardis, Program Director, RFPI Asia

The one-and-a-half day of public-private dialogue focused on SME Insurance have resulted to these key findings, reflections and next steps:

A. Value-chain approach to Insurance
   1. Value-chain insurance is relatively a new approach to addressing risk protection of the SMEs. Thus, continuous discussion of the approach helps to increase understanding and appreciation of its benefits.
   2. VC analysis provides a venue for broader possibilities of spotting opportunities on the role of insurance in SMEs development.
3. Understanding relationships of actors, and the points of financial transactions along the VC processes enable the insurers to broadly spot potential partners and aggregators/agents, and to develop appropriate insurance products.

4. Other than the direct players in the VC (i.e. producers, traders, processors, suppliers), VC analysis also maps out other actors who provide support services. Thus, it help regulators to spot “bottlenecks” in the smooth functioning of the VC processes which could be addressed by enabling regulations.

5. The identification of “bottlenecks” in VC analysis mean an opportunity for an inter-agency cooperation, for public-private dialogue and for public-private partnership that could contribute to business productivity and business continuity of the SMEs.

B. Micro-Agri SMSEs

1. Public-Private Partnership is preferred by most countries to manage the high risk of offering Agri-Insurance.

2. Market-based approach can work.

3. Forcing (Motivating) insurers to provide agri -insurance can lead to better understanding of the market.

4. Risk financial mechanisms (i.e. reinsurance pool) can be tapped by insurance associations to increase underwriting capabilities.

5. Identification of various stakeholders and their roles in the value chain can lead to creation of innovative insurance products.

6. Awareness campaigns should be a continuous initiative.

7. Fast claims management is the best brand management strategy.

8. Partnering with aggregators, such as Mobile Network Operators, is the way to go.

9. InsurTech and Artificial Intelligence are game-changers.

10. To be able to win at Micro-Agri, stakeholders must synergize good production methods and techniques, risk management mechanisms, and use of up-to-date technology.

C. Impact of Climate Change on SMEs

1. Regulation can mobilize MI/Inclusive Insurance response to NatCat.

2. Ability to pay legitimate claims, creates word of mouth which provides credibility for microinsurance; and market growth.

3. Value addition to insured products, through community partners/distribution channels at the local level creates demand for MI products.

4. Capturing low income sector through MI and protecting this market niche, protects your ownership of the market, as the sector graduates to higher income levels.

5. Passion for MI comes from authentic response to the demand by the market.

6. Working and aligning with Government Programs on NatCat response and management is essential in promoting MI and expanding the business.

D. SME Insurance in the Mining Sector/ Regulatory Impact Assessment (RIA)

1. Close collaboration between mining agencies/companies and insurance companies (e.g. data to support the development of pre-underwritten products – prototypes – to reduce cost and promote inclusive insurance).
2. Promote the use of technology through MNOs and permit the use of banks and cooperatives as distribution channels.

3. Allow bundling of products for raising the interest/trust of clients in insurance and create more business for insurance companies (including the life insurance).

4. Review and implement the strategic recommendations of RIA – Mongolia based on the assessment indicators in the area of institutional development, market development, and client value.

E. Regulatory Initiatives and Challenges on SME Insurance

1. Two main approaches to unlocking MSME insurance are:
   - Proportionate regulation
     - Enable MSME insurance distribution channels
     - Allowing the market to tailor products for MSME profile
     - Maintaining consumer protection
   - Complementary initiatives
     - Help cover uninsurable risks
     - Increase financial literacy, trust in insurance, and data gathering

Please refer to Annex K for the power point copy of the Synthesis

Closing Message

Dr. Davaasuren Sodnomdarja, Chairperson, Financial Regulatory Commission of Mongolia

Thank you very much for the excellent summary on this session, Dr. Antonis Malagardis. Ladies and gentlemen, it’s my great pleasure to announce that the learning session and the third public private dialogue on inclusive insurance for SMEs was successfully convened for the last two days in Ulaanbaatar. Two days of sessions of discussions on shared insights about a number of key issues and challenges facing SMEs. We share individuals’ experiences in addressing the risk and impact on climate change and mechanisms to minimize its adverse impacts on SMEs as well as exchange of guidance of best issues and practices of developing countries. This time was also stressed and focused of assessing the policies, positive issue by regulatory authorities affecting the regulatory framework of insurance markets, in particular, inclusive insurance. As a regulator, evaluating the actual impact of these policies on individuals and SMEs are extremely important for developing effective strategies to request the insurance sector towards a more inclusive market. For the closer cooperation between public and private sector, and implementation insurance policies that ensure the rights of all beneficiaries, crucial for reducing individuals and SMEs risks. FRC has become a board member of an alliance of financial inclusion, the Financial Regulatory Commission of Mongolia assumes that increased responsibility to promote financial inclusion across all financial markets, including the inclusive insurance.
In this respect, we regard our participation and co-hosting of this event here in Mongolia towards step forward accelerating the goal of inclusive insurance in Mongolia and Asia. Thus our imperative task will be to implement the recommendations delivered from this PPD and apply regional, international best practices with regard to inclusive insurance to the insurance industry in Mongolia. I believe peer to peer learning experiences of this kind is often crucial for developing a more responsive market, and I’m confident that to close a cooperation and joined support, we will be able to achieve greater success and effectively implement the recommendations delivered from this dialogue. Although the learning sessions and PPD have successfully come to an end, many other pressing issues remain undiscussed. I would like to remind all of you to join the upcoming seminar on DRIM natural catastrophe protection for SMEs that will take place today and tomorrow. Finally, I wish to take this opportunity to lend my warmest appreciation to GIZ, MEFIN and members of RFPI Asia program, for your kind engagement and invaluable contribution to this meeting in Ulaanbaatar. I hope the remaining session will bring ever more fruitful outcomes that will bring us to a state closer to our goal. Thank you very much.