

Factsheet microinsurance business model

Delivering Microinsurance in the Philippines through Pawnshops

The challenge

Different kinds of risks are present in our everyday life. Low-income people especially are highly vulnerable when it comes to health problems, the destruction of their house, assets, harvest or livestock due to natural catastrophes or to losing the breadwinner of the family in an accident. Although there is the theoretical possibility of purchasing an insurance policy to become capable of dealing with financial shocks, this option remains little appreciated. On the one side, low income people and small and medium-sized enterprises (SMEs) often lack access to affordable and responsive insurance. On the other side, insurance entities remain skeptical when it comes to the low-income market segment where they lack experiences and that implies high delivery costs.

Enabling policies and regulations

In order to tackle the problem, the Philippine government, supported by GIZ RFPI Asia and other development agency, promotes the market development of microinsurance (MI).

Section 187 of the Insurance Code of the Philippines (RA No.10607) defines “Microinsurance is a financial product or service that meets the risk protection needs of the poor where: (a) The amount of contributions, premiums, fees or charges, computed on a daily basis, does not exceed seven and a half percent (7.5%) of the current daily minimum wage rate for nonagricultural workers in Metro Manila; and (b) The maximum sum of guaranteed benefits is not more than one thousand (1,000) times of the current daily minimum wage rate for nonagricultural workers in Metro Manila.” Insurance Memorandum Circular 1-2010 mandates that “All microinsurance contracts shall clearly state the benefits and terms of coverage.” The microinsurance providers shall ensure that the contract shall bear the microinsurance logo, contract provisions can be easily under-

stood by the insured, documentation requirements are simple, and the manner of collection of premiums or contributions coincides with the cashflow of the insured and are not onerous.

Microinsurance can be provided by entities that are registered and licensed by the Insurance Commission (IC) such as commercial Life and Non-Life Insurance Companies, Mutual Benefit Associations, Cooperative Insurance Societies (CIS), Pre-need companies and Health Maintenance Organizations. The products can only be sold by licensed providers, agents and brokers.

Pawnshops

Pawnshops, in the Philippines, refers to “...a person or entity engaged in the business of lending money on personal property delivered as security for loans...”. (Pawnshop Regulation Act). It maybe established as a single proprietorship, partnership or corporation with a minimum paid-in capital of Php100,000.00 per branch. Pawnshops are supervised and regulated by the Bangko Sentral ng Pilipinas (BSP, Central Bank). All pawnshops are privately owned.

For many Filipinos, pawning jewelry at a neighborhood pawnshop has been the most common and quickest way to address an urgent need for relatively small amounts of cash. Compared with banks, pawnshops do not impose as many documentary requirements before releasing cash to customers.

Industry Profile (BSP, 2Qrt,2015)		Pawnshop Services
# Pawnshops	17,340 (61% of BSP regulated entities)	<ul style="list-style-type: none"> • Pawn Loan • Money transfers • Remittances • Bills payment • Insurance
# Head Office	5,807	
# Branches	11,533	



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The Pawnshop model

Cebuana Lhuillier is the biggest pawnshop network in the Philippines with over 1,800 branches nationwide. In year 2000, Cebuana won the Guinness World Records as the largest chain of pawnshops in the world.

Cebuana has a subsidiary company called Cebuana Lhuillier Insurance Solutions (CLIS), a General Insurance Agency licensed by the Insurance Commission. CLIS represents several insurance entities to distribute a range of insurance products, including the flagship microinsurance products the “Alagang Cebuana Plus (ACP)” and the ACP Gold, which can be accessed in all Cebuana pawnshop



branches. Under Insurance Circular No. 2015-54 on the Adoption and Implementation of Enhanced Microinsurance Regulatory Framework issued on October 2015, a General Insurance Agency like CLIS has unlimited number of insurance companies that it may represent. The circular empowers the General Agents to engage distribution channels such as entities (like pawnshops), retail outlets, and electronic platforms without the need for a license from the IC.



The ACPs are voluntary and stand-alone products (not bundled with any other financial services) which are being sold to walk-in customers of the pawnshops. It is a cash assistance that covers accidental death/dismemberment, fire, murder and unprovoked assault. The contract expires in four months, which coincides with the maturity of the pawn loan, when there is opportunity to

encourage renewal of the policies. Since 2010 when the IC issued the Regulatory Framework for Microinsurance, and the ACP products had been recalibrated to fully comply with the features of a microinsurance product, CLIS’ volume of certificates sold per year has exponentially increased (16.8 and 18.5 Millions in 2014 and 2015).

CLIS’ promise is fast and efficient claims filing with 24-hour claims processing where the proceeds can be paid in any Cebuana pawnshop branches nationwide. To date, CLIS has facilitated payment of claims of over Php150 Million which benefited more than 6 Million Filipinos, including the victims of natural calamities such as typhoons and earthquake. CLIS had set up mobile tents in affected areas of Typhoon Haiyan for onsite claims processing.

Providing Value for Clients

The Cebuana Lhuillier pawnshop company and CLIS, aside from facilitating fast claims payment, also provides other value-added services to its customers. It offers free medical teleconsultation, free relief operation for victims of natural catastrophes, and financial literacy. Eight (8) mobile hubs of MOWs are roaming in the villages to raise public awareness about risk protection and microinsurance. CLIS is active in many events that create public goods and to advocate issues like microinsurance awareness, disaster resilience and sportsmanship. It organizes annual search



for “Happiest Pinoys (Filipinos)” which promotes positivity and resiliency. It speaks in national and international conferences to share its advocacy on microinsurance. Recently, it organized jointly with GIZ RFPI Asia the Disaster Resilience Forum where it engaged various public and private stakeholders to generate commitments for climate change adaptation.

Voluntary microinsurance works

The pawnshop model in distributing microinsurance products has proven that microinsurance can be scaled up beyond the traditional channels of banks, cooperatives and member-based organizations. It has proven that microinsurance need not always be bundled with loans and other financial services. While Cebuana can be considered the champion of the pawnshop model, there are other large network of pawnshops in the country which also distribute insurance.