

Factsheet microinsurance business model

Delivering Microinsurance in the Philippines through Rural Banks

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.

Rural banks

Rural banks are organized in the form of stock corporations with capital stock that shall be fully owned and held directly or indirectly by citizens of the Philippines or corporations, associations or cooperatives qualified under Philippine laws (RA No.7353).

Authorized and supervised by the Bangko Sentral ng Pilipinas (BSP, Central Bank), the rural banks (RBs) are established for the purpose of providing adequate credit facilities to farmers and merchants, or to cooperatives of such farmers and merchants and in general, the people of the rural communities. An RB can operate nationwide subject to required level of capitalization.

Industry Profile (BSP, Sept 2015)		Rural Bank Services
# RBs	529 (83% of 635 banks)	<ul style="list-style-type: none"> Loans and Savings Correspondent of other FIs
# branches	2,064 (21% of 9,980)	<ul style="list-style-type: none"> Rediscounting Collection agent
Asset (Php)	212.8 B (1% of all banks)	<ul style="list-style-type: none"> Buy/Sell Forex Trustee
# of RBs selling MI	50 (RBAP, Feb 2016)	
# MI outreach	1.94 Million (RBAP, 2014)	



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Partner-agent model

Two regulators, the BSP for banks, and the IC for insurance entities, have collaborated to encourage distribution of microinsurance products through the banks.

In February 2010, the BSP has issued Circular No 683 which provided a long list of requirements for banks to be able to participate in the "Marketing, Sale and Servicing of Microinsurance Products". Among the requirements is the need to amend the bank's article of incorporation by including a secondary purpose of acting as a microinsurance agent, and a certificate of authority from the IC as a microinsurance agent.

The IC in February 2011 has issued insurance Circular No.6 providing the "Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents". The circular has simplified the requirements and procedures for licensing of microinsurance agents.

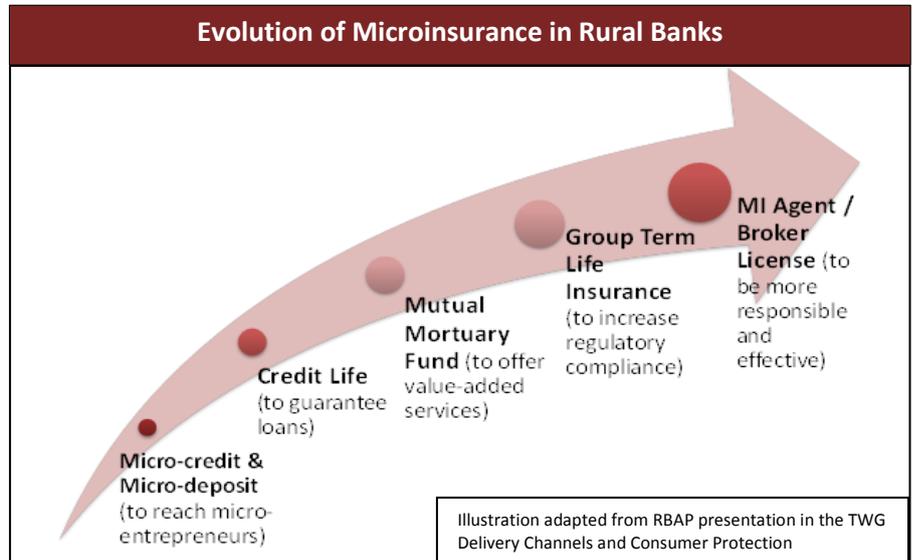
The circular also allows both individual and institutions to become MI agents. A rural bank will just need to complete a 3-day training program prescribed by the IC and conducted by an accredited institute.

The BSP and IC collaboration has created the partner-agent model in distributing MI products which is now being used by 50 rural banks. Under this model, a rural bank (the agent) enters into an agreement with a duly authorized insurance provider (the partner) which has the responsibility of ensuring that each of the microinsurance products to be marketed or sold by the bank is approved by the IC. The bank conducts consumer education sessions, distribute the product to its microfinance clients and collect premiums. The partner, under its formal agreement, authorizes the agent to process claims requirement and, to a certain extent, settle claims payment. The partner-agent model enables a rural bank to provide additional service to its clients, complies with regulations on informal insurance, and earns commission from the partnership.

3 Options to formalize informal insurance activities (Joint IC-SEC-CDA Memo Circular 1-2010)

- 1 - Partner with commercial insurance companies for IC-approved products either under a group or individual policy
- 2 - Establish membership to an IC-authorized cooperative insurance society (CIS) or Microinsurance-Mutual Benefit Association (MI-MBA)
- 3 - Set up an insurance entity, either as:
 - (a) life or non-life insurance company, (b) CIS, or
 - (c) MI-MBA

Microinsurance has evolved in the RBs. The diversity of products has improved significantly over time. From a traditional credit-life, the products now include hospitalization benefit, endowment or saving-based insurance, and natural catastrophes. The 50 rural bank agents have a combined MI outreach of 1.94 Million



(2014). After typhoon Haiyan struck the country where microinsurance system was put into a test, the rural banks were able to facilitate claims payment for its clients.

Building capacity of rural banks

The RBs in the Philippines are well organized through the Rural Bankers Association of the Philippines (RBAP). The association was established since 1955 where it serves as a dialogue platform of members with the regulators. The RBAP president is elected for one year, then on the second year, he/she leads the RB Research and Development Foundation, Inc. (RBRDFI). The Foundation deliver services to the members such as training on MI agents licensing, other MI trainings, and assist insurance providers in MI product development. It supports the RBs that want to become an agent to go through the processes of complying with the requirements set by the regulators. RBRDFI earns from conducting trainings with the rural banks where the fees are being paid for by its partner insurance providers.

Mainstreaming informal insurance

The regulatory reform in MI has encouraged the formalization of informal insurance activities (mutual mortuary fund). The partner-agent model responds to one of the 3 options to formalizing informal insurance activities wherein the detailed guidelines are presented in the joint memo circular 1-2010 issued by the IC, the Securities Exchange Commission (SEC) and the Cooperative Development Authority (CDA).