

Climate and Disaster Risk Insurance-related Country Experience

Philippine Catastrophe Insurance Facility (PCIF)

Context

The Philippines faces some of the highest climate and disaster-related risks in the world. Despite having one of the most advanced microinsurance landscapes globally, the country has a relatively low penetration of climate and disaster risk insurance (CDRI).

As per Lloyd's report from 2018, one of the underlying reasons for the low catastrophe insurance penetration is that the local insurance industry has an underwhelmingly inadequate financial capacity to retain catastrophe risks without borrowed capital in the form of reinsurance. Namely, the annual expected losses from natural catastrophe perils – over USD 1.1B – are disproportionately vast compared to the insurance industry's net worth of around USD 1.5B in 2018. In other words, the available capital in the industry is only around 1.3 times the annual expected loss.

Other contributors to underinsurance include the low availability of affordable insurance cover, buyers' low insurance awareness, and generally low trust to insurers.



The expected cumulative losses from natural disasters currently seem to outweigh the capacity of the local industry to retain these risks.

Multi-sectoral efforts to advance disaster risk insurance

Recognising that a systemic multi-sectoral collaboration is essential to address this insurance gap, the Insurance Commission (IC) requested for Technical Assistance from the World Bank to establish a Philippine Catastrophe Insurance Facility (PCIF). In January 2020, the IC, together with the Philippine Insurers and Reinsurers Association (PIRA) and the National Reinsurance Corporation of the Philippines (NatRe) signed a Memorandum of Understanding (MoU) to formalize the PCIF and review minimum catastrophe risk insurance rates by early 2021. The MoU aims to:

- Increase Philippine financial resilience towards natural disasters to hasten the recovery of communities after a large loss event;

- Address the catastrophe insurance gap;

- Create a more risk-appropriate rating environment that would ensure sustainable disaster premium rates;

- Increase the catastrophe resilience of the Philippine insurance industry and its capacity to retain catastrophe risks;

- Provide the public with more inclusive access to catastrophe insurance protection.

Context and objectives of Philippines Catastrophe Insurance Facility (PCIF)

PCIF is for non-life insurers in the country to redirect the catastrophe risks to the facility that shares the pooled risks with the participating companies. By doing so, the facility capacitates the insurers to cover catastrophe risks and manage their exposures to catastrophes more effectively.



Lightning in Manila. Photo by Svitlana Koshelieva



Marketplace in Cebu. Photo by Hitoshi Namura

This factsheet is produced for the MEFIN Network, a collegial body of insurance policy makers and regulators in Asia, jointly by the Philippine Insurers and Reinsurers Association (PIRA) and the German Development Cooperation - Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (GIZ RFPI Asia). In case of content-related questions, please contact PIRA: pira@pirainc.com.ph. www.mefin.org

PCIF aims to satisfy four core objectives:

- 1. Stronger Philippine non-life insurance industry:** PCIF enables more insurers to provide coverage against disasters, and thus promote the financial resilience of the people and businesses of the Philippines against disasters like floods, typhoons and earthquakes. This includes ensuring that insurers provide timely claims settlement after each natural disaster.
- 2. Higher insurance penetration over a period of time:** The enhanced ability to develop and offer catastrophe insurance solutions is aimed to be converted into a marked increase in insurance penetration. This requires complementing the advanced supply with complementary measures, including insurers adjusting the products to the needs of specific population segments and raising awareness accordingly.
- 3. Adequate and sustainable catastrophe premium rates:** As the local Philippine insurance industry has limited financial capacity to adequately retain catastrophe risks, PCIF is envisioned to increase natural catastrophe premiums of an estimated 30% to 50% of current market rates via the use of technically-proven rates. The purpose is to ensure a more resilient industry where the premium reserves are sufficient to respond to disasters.
- 4. Increased local catastrophe retention:** when currently the providers of catastrophe insurance reinsure primarily abroad, PCIF provides the opportunity to leverage on the retentions of the Philippine companies in a way that the premium base can be grown internally. Nevertheless, given the nature of catastrophe risks, some level of international reinsurance is likely to remain necessary.

The four objectives of PCIF:

1. Stronger Philippine non-life insurance industry
2. Higher insurance penetration
3. Adequate & sustainable catastrophe premiums
4. Increased local catastrophe retention

Striking a balance between various interest groups

Setting up PCIF involves several challenges, one of the central ones being **how to strike a balance between the interests of various stakeholder groups.**

As an example, some actors might question whether it is appropriate for PCIF to use the technically-proven rates to increase the premiums of catastrophe insurance.

For instance, increasing the premiums appears to work against making insurance more affordable, and thus the efforts of PCIF seem to be disjoint from the needs of the *low-income and vulnerable households and businesses.*

Nevertheless, *the* viability of the non-life insurance industry is essential to ensuring sustainable insurance solutions. Only later the industry can leverage its advanced competencies and financial capacities to retain catastrophe risks, in order to make catastrophe insurance solutions more affordable to various population segments.

Further, universal minimum premium requirements could restrict underwriters

from following their current practices of setting premiums, as it would affect their current considerations and neglect the differences in the capacities and strategies of the various insurance companies.

PCIF progress and expectations

PCIF is currently in the inception phase and thus the details are still being discussed. Nevertheless, when starting to pursue the four objectives, PCIF is expected to become a facility of more than PHP 1 trillion (USD 25.5M), stimulate more insurers to provide cover against catastrophes and promote the uptake of catastrophe insurance.



Lightning in Manila. Photo by Svitlana Koshelieva



Marketplace in Cebu. Photo by Hitoshi Namura

This factsheet is produced for the MEFIN Network, a collegial body of insurance policy makers and regulators in Asia, jointly by the Philippine Insurers and Reinsurers Association (PIRA) and the German Development Cooperation - Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (GIZ RFPI Asia). In case of content-related questions, please contact PIRA: pira@pirainc.com.ph.

www.mefin.org