MEFIN Public Private Dialogue (PPD8)
webinar series on Inclusive Insurance
Theme: Building Resilience through Climate Risk Insurance for MSMEs

March 24-25, 2020
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Acronyms

BI  Business Interruption
CDRI  Climate and Disaster Risk Insurance
CLIB  Cebuana Lhuillier Insurance Brokers
COAST  Caribbean Oceans and Aquaculture Sustainability Facility
CSR  Corporate Social Responsibility
DRF  Disaster Risk Financing
CRI  Climate Risk Insurance
DRI  Disaster Risk Insurance
DRM  Disaster Risk Management
DTI  Department of Trade and Industry (Philippines)
GIZ  Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
IDF  Insurance Development Forum
LGU  Local Government Unit
MCIF  MSME Climate and Disaster Risk Insurance Forum
MEFIN  Mutual Exchange Forum on Inclusive Insurance
MI  Microinsurance
MSMEs  Micro, Small and Medium Enterprises
NDMA  National Disaster Risk Management Authority (Pakistan)
NFIS  National Financial Inclusion Strategy (Pakistan)
PIRA  Philippine Insurers and Reinsurers Association
PPP  Public-Private Partnership
PPD  Public Private Dialogue
RFPI  Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia
SECP  Securities and Exchange Commission of Pakistan
I. Background

The public private dialogue (PPD) on inclusive insurance is a biannual knowledge exchange platform by the MEFIN Network (Mutual Exchange Forum on Inclusive Insurance), which aims to facilitate a multi-stakeholder discussion on developing an enabling environment for inclusive insurance.

This report documents the highlights and key insights of the eight PPD, themed **Building Resilience through Climate Risk Insurance for MSMEs**. The PPD8 webinar series was held on March 24-25, 2020 through the Zoom online platform. Originally the PPD8 was planned to be conducted in person in Manila but it was decided to be organized as a virtual webinar series due to the restrictions arising from COVID-19.

The event consisted of four one-hour webinar sessions:

- Session 1: What is climate risk?
- Session 2: Climate Risk Insurance data requirements and modelling
- Session 3: Developing insurance for MSMEs
- Session 4: Micro vs. meso vs. macro insurance solutions: are regulators ready?

All sessions were structured as follows: the moderator introduced the topic and the speakers, the speakers held individual presentations, the moderator facilitated a question and answer (Q&A) session to the panellists, and the moderator synthesized the session. Questions were asked by both the moderator and the attendees, the latter through the webinar platform.

The four sessions hosted a total of 12 presenters and moderators and 133 unique attendees from 18 different countries, including insurance supervisory authorities, other government delegates, insurance industry representatives, development agencies, and others.

The event was co-hosted by GIZ RFPI’s MEFIN Network, Pioneer & Microinsurance Network:

- **MEFIN** is a network of insurance regulatory authorities and industry players in Asia that engages in knowledge production and provides a platform for knowledge exchange for developing the inclusive insurance landscape in Asia. MEFIN network is supported by the GIZ Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia III (RFPI), which also serves as the network’s Secretariat.
- **Pioneer** is a leading insurance corporation in the Philippines, offering a wide range of both life- and non-life insurance products throughout the country. With a diverse portfolio of products and well-established partnerships nationwide, Pioneer plays a critical role in promoting inclusive insurance via the private sector.
- **Microinsurance Network** is a global multi-stakeholder platform for microinsurance (MI) sector to encourage shared learnings and facilitate knowledge generation and dissemination. The network focuses on increasing the supply of MI providers and products, seeking appropriate regulations, and promoting MI as a key risk mitigation tool for the low-income populations.

This report is structured in two: first, an overview of each session is provided, and second, the key takeaways are underscored. PPD8 agenda and links to all the webinars can be found in the Annexes.
II. Webinar sessions

1. Session 1: What is climate risk?
The purpose of Session 1 was to understand how climate risks impact the low-income sector and MSMEs, learn about different ways to mitigate climate risks and identify hindrances to the development of insurance solutions to MSMEs. The session was moderated by Dr Antonis Malagardis, the Program Director of GIZ RFPI. 38 participants attended the session.

1.1. MSME Development and Disaster Resilience in the Philippines
The first speaker, Undersecretary Blesila A. Lantayona from the Regional Operations Group of the Department of Trade and Industry (DTI) in the Philippines, introduced the landscape of MSME Development and Disaster Resilience in the Philippines.

The characteristics of MSMEs in the Philippines were illustrated by showing that from a total of 1 million business establishments in the country, 88.5% are micro-enterprises and 99.5% are MSMEs. Further, almost half of all MSMEs were said to be concentrated in 3 out of 17 regions in the Philippines. MSME Development Plan 2017-2022 was described as a framework that guides the government’s work on making MSMEs more resilient and sustainable, including improving MSMEs’ access to insurance products.

The insurance uptake was demonstrated through a survey conducted in 2015, which revealed that 11% of MSMEs in the country had a natural catastrophe (NatCat) insurance, compared to 43% of MSMEs with a motor/car insurance. The survey also implied to MSMEs’ low uptake of formal risk financing mechanisms, indicating to the need for further research on the effectiveness of informal financing mechanisms, barriers to access both formal and informal risk transfer mechanisms, availability of suitable insurance products, and others.

The presentation was concluded by describing the importance of Negosyo Centres – centres that provide MSMEs access to and guidance on business services – in advocating for and promoting appropriate risk financing mechanisms for MSMEs.

1.2. Experience and insight of GIZ RFPI in promoting inclusive insurance
The moderator and Program Director of GIZ RFPI Asia, Dr Antonis Malagardis complemented the previous by sharing the experience and insight of RFPI Asia in promoting inclusive insurance to MSMEs in the Philippines.

First, highlights were detailed of the lessons from MicroBizProtek, a Disaster Risk Insurance (DRI) product for MSMEs. It was emphasized that DTI Business Counsellors at the Negosyo Centers can effectively advocate for MI as a disaster risk mitigation measure for MSMEs to increase their uptake of products such as MicroBizProtek. It was also stressed that the MI products for MSMEs can be made more affordable by making the products provide MSMEs – in case of a disaster – quick response and liquidity, instead of covering the entire property insurance needs.

Second, the nature of MSME Climate and Disaster Risk Insurance Forum (MCIF) was described. Namely, the platform is led by DTI and supported by other public and private partners with the key purpose of promoting research for developing insurance products for
MSMEs in the Philippines. MCIF was said to meet the needs for further research as shown by the survey described in the previous presentation.

Third, it was explained that GIZ and other actors are addressing insurance as part of a cycle of Integrated Approach for DRM and risk transfer for MSMEs, which consists of five stages: prevention, risk transfer, preparedness, response and recovery. According to this approach, insurance should be used only after DRM and feasibility studies have been carried out, preventive measures have been taken, and residual risk has been identified (i.e., remaining risk after all DRM and preparedness measures have been applied). It was highlighted that GIZ RFPI is examining how Local Government Units (LGUs) and other stakeholders in the Philippines, including the Negosyo Centers, link to the five stages to make MSMEs more resilient (see the graph above).

1.3. Discussion

The Undersecretary Lantayona substantiated on the COVID-19 situation, stating how MSMEs are struggling due to the decreasing or closing operations, and questioning if insurance could provide support in such situations. Dr Malagardis compared the business interruption arising from COVID-19 with interruptions emerging from extreme weather events, such as flooding, which can close markets, for instance, and leave enterprises without compensation for weeks. He elaborated that while the insurance industry cannot yet offer MSMEs products against such pandemics, the current situation incentivises the development of appropriate business interruption (BI) insurance products.

To Dr Malagardis’ call for participants to share their experiences of BI insurance outside of Asia, Ms Leticia Gonçalves from MiCRO explained the nature of the BI insurance solution of MiCRO. Namely, the product is offered to both smallholder farmers and entrepreneurs in El Salvador and Colombia, it is parametric and covers against three perils – earthquake, excess rain and drought –, and its payouts depend on the magnitude of the event. The insurance is linked to credit, which allows paying the microfinance institution first if the client has an outstanding loan and the remaining amount is received by the client.

Mr Dante Portula from GIZ RFPI inquired whether DTI keeps track of the information of how many MSMEs are affected by the COVID-19 emergency, and in what ways more specifically. He also referred to the potential of Negosyo Centres to collect data that could inform insurance sector about product development. The Undersecretary stated that around half of MSMEs are affected but many industries are still operating. She implied that while DTI currently does not have such data, also due to the closing of many Negosyo Centres, the potential to collect this data and provide it to the partners will be discussed with the Bureau of Small and Medium Enterprise Development and the Negosyo Centre Project Manager.
To the question on if informal food markets are allowed to open, the Undersecretary Lantayona stated that while some department stores are closed, supermarkets and smaller stores are allowed to remain opened and that there is no reason to be afraid of food scarcity. Mr Simon Schwall from Oko Finance inquired about what have MSMEs expressed as a need from CRI. The Undersecretary highlighted typhoons, earthquakes and flooding and rain to result in the biggest loss of incomes and diminishing productions.

Mr Portula added from the side of business model development that the main types of data that are required to develop CRI products for MSMEs include 1) the count of MSMEs, 2) the number of MSMEs affected by NatCats, and 3) the losses MSMEs have suffered from NatCats. It was said that data on the count of MSMEs exists but the latter two are mostly missing.

2. Session 2: Climate Risk Insurance data requirements and modelling

The aim of Session 2 was to understand different issues and approaches to risk modelling and related capacity development needs in the context of climate risks and CRI relevant to the low-income sector and MSMEs. The session was moderated by Ms Katharine Pulvermacher, the Executive Director of the Microinsurance Network. 23 participants attended the session.

2.1. Climate Risk Insurance – Data and Modelling

Dr Claire Souch, an Independent Consultant and Advisor to the Insurance Development Forum (IDF), began by presenting IDF, a PPP that assembles the insurance industry, the World Bank, the UN, civil society and other actors to support the development of insurance- and risk-related financial mechanisms.

CRI was introduced by comparing parametric and indemnity-based mechanisms, and then by elaborating on the data requirements of the former. The payout for parametric schemes is triggered when a pre-specified parameter (index) is exceeded – e.g., earthquake or cyclone where the parameter is magnitude or wind speed – regardless of the actual loss sustained. The parameter must be objective, transparent and consistent, and correlate to a defined risk. To reduce basis risk, the data has to be real-time and close to the risk location. The limitations of obtaining such data were portrayed by the sparse distribution of weather stations in many areas of the Philippines.

Pricing the risks requires an understanding of both the average expected losses that may be paid out and the probability of extreme events that may bankrupt the risk transfer scheme. For such analysis, Catastrophe Models (Cat Models) are used for risk modelling by using limited data to extrapolate the estimated impact and probability of a specific event and exposure in a defined area. The risk modelling was said to require four types of data: hazards, geophysical data, exposure and vulnerability.

Key challenges associated with risk modelling include the availability, quality and accessibility to localized data, which is relevant, for instance, for MI. Other concerns that were raised included 1) data sensitivity, 2) profiteering from public data, 3) static risk analysis that does not reflect the dynamic environments where risks are managed, and 4) poor collaboration between stakeholders, which leads to repetitive risk analysis efforts.
Based on the previous, **the benefits of open data and modelling were emphasized:**

- Democratizing risk insight by all stakeholders, especially the risk owners,
- Increasing the transparency of the data and the associated uncertainties,
- Sharing data and models to reduce redundant work, increase efficiency and reduce costs,
- Collaborating on all levels, esp. with the local actors, to balance the risk understanding.

The *Oasis Open Source Loss Modelling Platform* was exemplified as an open platform that allows anyone to examine hazard, vulnerability and exposure to calculate risks and losses for risk pricing. Oasis Climate and Catastrophe Risk Platform for Asia was described as one of the good uses of the platform, given its PPP-type of set-up to promote open, transparent and end-users’ demand- and ownership-driven risk-modelling in Bangladesh and the Philippines.

The presentation was concluded by showcasing a case study from San Salvador, where the same Oasis Loss Modelling Platform was used to 1) project the increase in expected annual losses of flooding of the region between 2015 and 2040, 2) identify and quantify the most cost-effective adaptation measures to reduce potential losses, and 3) reduce the insurance premiums accordingly. More specific numbers can be seen on the slide below:

**Economics of Climate Change Adaptation**

San Salvador Case Study Released November 2019

1. by 2040 economic development and climate change could more than double annual expected damage to 7.4 million USD

2. more than 27 million USD of potential losses from flooding could be prevented by implementing the two most cost-effective physical adaptation measures in residential housing

3. if implemented, insurance premiums can be reduced by 35%

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**2.2. Catastrophe Modelling and MSME Insurance**

Mr Stefan Eppert began by presenting the catastrophe modelling company KatRisk and introducing Cat Models used to estimate the probable losses caused by NatCats.

Cat Models enable (re)insurers to create insurance products that can support local (micro)insurance schemes to transfer risks such as illiquidity and bankruptcy, which arise from a large share of the insured being exposed to catastrophes. Global insurers were highlighted as those who can keep the premiums low by diversifying their risks and insurance portfolio globally. Cat Models help to analyse the premium to charge for each (re)insured person, capital to retain to

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ensure a sustainable insurance scheme, and the markets where to provide insurance to make certain it is not correlated to the risks that are already being (re)insured.

In most cases, historical data was said to be insufficient to inform about possible losses, due to the rarity of extreme events, poor data availability and changes in climate, population, land use and other areas. Cat Models allow simulating catastrophes that might happen and calculate speculative losses based on the exposure that the policyholders are insured against.

**Building a Cat Model was exemplified via a model predicting how NatCats might lead to water ponding up in different areas of the Philippines.** Modelling was informed initially by the global sea surface temperature model, followed by examining patterns of precipitation and tropical cyclones. Then, the local hydrology of various areas was observed (precipitation, evaporation, run-off, river routing etc.) and flood defence mechanisms were analysed.

It was said that building a model requires years of collecting data and fitting and running the models. Also, the process is often longer in emerging countries due to low data accessibility and bureaucracy. Despite the existing tools and competencies to build thorough Cat Models, there is presently a limited market demand and support for such insight.

The presentation was concluded by underlining that Cat Models have traditionally been static and used by insurance users with similar demands, but that the increasing data on climate, social vulnerabilities etc. make these models more relevant for a wider group of stakeholders.

### 2.3. Panel discussion

The moderator, **Ms Katharine Pulvermacher**, raised the question about the uses of Cat Models beyond insurance. **Dr Souch** emphasized that models can be used to rapidly test and calculate the impact and economic value of different interventions, e.g., those concerning urban planning and building code designs, flood interventions and individual protection mechanisms. **Mr Eppert** added that Cat Models can help to plan for post-disaster recovery and response activities, such as human resource management, MI payout schemes, and others. From the audience, **Ms Annette Detken** from the InsuResilience Solutions Fund added that risk modelling is a helpful instrument for policymakers to a) understand how to minimize the residual risk and see where insurance is most relevant and b) prioritize different options for climate adaptation, referring to Dr Souch’s example of San Salvador.

**Dr Antonis Malagardis** from GIZ RFPI Asia asked about how to make insurance more affordable to lower-income households and MSMEs if localized data is available and verified. **Dr Souch** said that the issue of premium affordability requires a larger discussion, but some questions that need to be answered include what kind of mechanisms are set up, who pays for these, are they risk-based schemes or not, and others.

To the moderator’s question on what must be done to use Cat Models in the context of inclusive insurance, **Mr Eppert** stressed that insurance coverage must be increased rapidly and the advanced toolsets that are available in the developed countries should be made accessible also for the emerging markets to enable lower premiums and better-informed product development. **Dr Souch** agreed on the need to share data and added that risk owners need to understand the risk, not just the providers of the solutions. She also highlighted that that dialogue and partnerships are needed to share the data that underlies all the decisions.
3. Session 3: Developing insurance for MSMEs

The goal of Session 3 was to examine how the MI market can enhance the resilience of MSMEs, the current gaps in risk management services for MSMEs and opportunities to fill these gaps and develop relevant insurance products. The session was moderated by Mr. Lorenzo Chan, the President and CEO at Pioneer Life Inc. 104 participants attended the session.

3.1. Developing insurance for MSMEs: The CARD MRI Experience

Dr. Jaime Aristotle B. Alip, the founder of CARD MRI, one of the biggest micro-insurance institutions in the Philippines, presented how the company has developed insurance solutions for MSMEs.

First, an overview was given of the MSMEs in Asia. It was said that, first, only 3 out of 10 people in the Philippines have a formal financial institution account, compared to 5 out of 10 globally. Second, 60% of the national labour force in Asia and the Pacific comes from MSMEs. And third, 172 million lives and properties in Asia and Oceania have MI coverage. In the Philippines, 32% of the population is insured, with top contributors being CARD MRI in collaboration with Pioneer.

CARD MRI was presented to advance the insurance market for MSMEs in many ways:

- Claim settlement of 8 to a maximum of 24 hours via digital tools and cellphones,
- Promoting members’ ownership, e.g., through community development programs and using community-elected leaders to validate the claims,
- Using existing networks to reach clients, such as through the Microfinance Network,
- Build-Operate-And-Transfer (BOAT) Program that allows replicating CARD’s model,
- Offering a range of competitive MI products to MSMEs, e.g., agri- and life insurance,
- Providing other non-financial services, such as disaster response and relief efforts,
- Process automation, e.g., using a chatbot in insurance enrolment and claims settlement.

It was highlighted that to make the inclusive insurance market more effective, 1) claim settlement should be accelerated via the use of technology and digital banking, 2) easy premium payments should be promoted and 3) more risk managing financial services should be developed, such as calamity loans, emergency savings and life and non-life MI solutions.

To the question of the moderator, Mr. Lorenzo Chan, on the level of readiness of clients to use the technological tools, Dr. Alip said that the adaptation took time but clients got used to using the cellphone and chatbot for insurance purposes after they understood the efficiency of tech.

3.2. Comparing MicroBizProtek and NegosyoProtek

Mr. Jonathan Batangan, the First Vice-President and Group Head of the Cebuana Lhuillier Insurance Brokers (CLIB) gave an overview of the nature and challenges of MSMEs in the Philippines and compared two of their insurance products targeted to MSMEs.

To start off, it was stated that MSMEs play a critical role in the economy of the Philippines. Around 90% of 1 million enterprises were said to be micro-businesses, nearly half of the MSMEs to belong to the wholesale, retail trade and repair of motor vehicles sector, and 64% of companies
to be situated in the Luzon region. Also, a study commissioned by the DTI had identified that one key challenge for MSMEs is climate change.

It was said that CLIB has two products for enhancing the resilience of MSMEs: NegosyoProtek and MicroBizProtek. The comparison of the two can be seen in the table below:

<table>
<thead>
<tr>
<th>Product features</th>
<th>NegosyoProtek</th>
<th>MicroBizProtek</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Insurance</td>
<td>PHP 5K – 100K</td>
<td>PHP 100K – 500K</td>
</tr>
<tr>
<td>Burglary &amp; Robbery</td>
<td>PHP 5K – 50K</td>
<td>PHP 50K</td>
</tr>
<tr>
<td>Comprehensive general liability</td>
<td>-</td>
<td>PHP 10K</td>
</tr>
<tr>
<td>Personal insurance for owner and 2 employees</td>
<td>PHP 5K – 40K, dep. on event</td>
<td>PHP 2.5K – 25K, dep. on event</td>
</tr>
<tr>
<td>Emergency Assistance</td>
<td>-</td>
<td>Included (AXA Red Button*)</td>
</tr>
<tr>
<td>Premium annually</td>
<td>PHP 150 – 1 400</td>
<td>PHP 540 – 3 275</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product distribution</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary/mandatory</td>
<td>Mandatory</td>
<td>Voluntary</td>
</tr>
<tr>
<td>Packaging</td>
<td>Bundled in partners’ products</td>
<td>Offered independently</td>
</tr>
<tr>
<td>Marketing</td>
<td>Together with retailer packages from partners, e.g., agents wishing to be part of CLIB ecosystem and resell CLIB’s products (retailers or “sari-sari” stores)</td>
<td>Spread via DTI Negosyo Centres, after business resilience forums, insurance learning sessions, disaster risk events, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount insured</td>
<td>PHP 134.6 million</td>
<td>PHP 1 million</td>
</tr>
<tr>
<td>Policies issued</td>
<td>1 346</td>
<td>2</td>
</tr>
<tr>
<td>Total premium collected</td>
<td>PHP 1.21 million</td>
<td>PHP 4 550</td>
</tr>
</tbody>
</table>

* Emergency helpline that can employ ambulance, police and firefighters.

The key experiences from the comparison were said to be threefold. **First**, mandatory selling by bundling insurance with partners’ retailers’ packages is effective for NegosyoProtek, whereas voluntary selling of MicroBizProtek is ineffective due to more complex premiums and a higher amount of coverage. **Second**, bundling NegosyoProtek works as it does not require approval from an insurance partner for high-risk areas, but MicroBizProtek requires prior approval for high-risk areas. And **third**, voluntary application of MicroBizProtek does not work as the staff have limited time to tend customer queries on-site.

CLIB’s experience in developing insurance for MSMEs provided several insights:

1. **Insurance products for MSMEs must be affordable, accessible and relevant.**
2. **Client onboarding must be simple and quick** to drive sales with minimum premiums – digital solutions may expedite enrolment.
3. **Mandatory selling with distributors works to create initial traction.**
4. **Multi-stakeholder collaboration is the key to develop the landscape of MSME insurance**: regulators can support insurance awareness programs, industry players design efficient products and distribution channels, consumers demand value, etc.

For **Mr Chan’s** question on what regulatory adjustments would be required to enable a better pickup of insurance products for MSMEs, **Mr Batangan** emphasized that developing an MSME MI regulatory framework would guide and develop the sector further.
3.3. Experience of developing insurance for MSMEs in Pakistan

Mr Mohammad Ali Ahmed, the Chief Strategy Officer and Executive Director of EFU Life Assurance Ltd, provided an overview of the company’s experience in providing insurance to MSMEs in Pakistan.

The Pakistani context was introduced by detailing that there are 3.2 million SMEs, which contribute to 40% of the GDP, 25% of the exports and 73% of the non-agri employment. Most of the SMEs (53%) operate in the retail trade, wholesale and hotels/restaurants sector, and 97% of all SMEs have a sole proprietorship-type of structure.

Based on EFU Life’s experience, MSMEs in Pakistan face numerous issues, including 1) insufficient collateral to demonstrate equity, 2) widespread informal economy resulting in a lack of proof for banks to verify if MSMEs have the capacity to pay, 3) poor management skills esp. in financial planning, bookkeeping and data management, 4) low competitiveness (e.g., seen from the low contribution to exports), and 5) inadequate financing. Based on the context, the needs of MSMEs in Pakistan were highlighted as appropriate key man insurance and BI insurance products (including the insurance linked to NatCats), and better business management skills and knowledge of insurance.

To develop insurance markets for MSMEs, various recommendations were proposed for the insurers (slide on the left below) and for the business models (slide on the right).

The impacts of three prior NatCats in Pakistan were demonstrated in the context of agriculture to illustrate how dependent MSMEs are on agricultural production. From the insurance perspective, it was said that the insurance penetration in the agricultural sector is low due to the poor data (e.g., crop area damage), limited knowledge of agriculture insurance and reluctance of insurers to target this segment.

The government-led Crop Loan Insurance Scheme was depicted as an existing product, which is subsidized and offered by all banks in the agribusiness and that covers calamities like excessive rain, flood, drought and others. However, it was said that the scheme is not demand-driven and lacks innovation. The recently established Crop Insurance Task Force created by the insurance regulator, and its National Crop Insurance Scheme were described as prospective developments in the area of agricultural insurance for MSMEs in Pakistan.

3.4. Panel Discussion

The moderator, Mr Chan inquired how have the companies responded to MSMEs’ renewal claims during the COVID-19 outbreak. Both CARD MRI and CLIB were said to use various digital tools such as messenger technologies (both) and chatbots (CARD) to enable people to interact with the companies virtually at all times. Both were also said to provide opportunities for the insured to access the companies in presence: CARD through its agents in the communities, and CLIB via the 95% of its 2500 pawnshops nationwide that were said to be open also during the lockdown. At CARD, it was emphasized that insurance is linked to loans.
from banks for clients to be able to pay the full premium amounts. CLIB was said to continue facilitating its online insurance marketplace and experimenting with infusing blockchain technology into the company’s ecosystem for faster exchange of information.

Dr Antonis Malagardis from the audience commented that GIZ has committed to supporting the development of BI insurance from NatCats and is looking into the insurance of microenterprises’ inventories. He described the plan to conduct a survey on asset validation and questioned whether inventory insurance would align with the needs of CARD’s clients. Dr Alip endorsed the idea of carrying out a joint survey and developing BI insurance for the MSMEs. Mr Chan, Dr Betangkan and Dr Alip all stressed the importance of coming up with a BI insurance scheme, especially for microenterprises.

As key takeaways, the panellists and moderator highlighted the following:

- Insurers need to be responsive to the needs of the MSMEs, e.g., by interacting with MSMEs in product development, and if possible, by experimenting in regulatory sandboxes. Timely claim settlement is proof of responsive insurance products.
- MSMEs in many emerging markets are in need of appropriate BI insurance products.
- A regulatory framework for MSME insurance greatly supports the MI landscape.
- Technology promotes the uptake of insurance in the low-income sector.

4. Session 4: Micro vs. meso vs. macro insurance solutions: are regulators ready?
The purpose of Session 4 was to map different stakeholders important for managing climate risks, assess how to improve the coordination between various public and private actors to promote inclusive insurance, and identify which mechanisms could be utilised to support the coordination in the area of inclusive insurance. The session was moderated by Ms Hannah Grant, the Head of Secretariat at A2ii. 26 participants attended the session.

4.1. Context to the NatCat protection gap and the three levels of solutions
The Moderator, Ms Grant, contextualized the session by highlighting that the NatCat protection gap was 280 billion USD in the last 2 years alone, with only 1% of losses having been insured in Sub-Saharan Africa and 3% of losses in Latin America. The solutions to bridge the gap were categorised on three levels:

1. Macro-level solutions: the government is the policyholder and can use the payout from insurance scheme to finance disaster relief efforts after the catastrophe,
2. Meso-level solutions: aimed at protecting the financial service providers that serve the low-income populations,
3. Micro-level solutions: risk transfer solutions that protect the low-income individuals, households, smallholder farmers and MSMEs directly.

Attention was brought to A2ii’s recent publication on the role that insurance supervisors have in developing the landscape of CRI and how they can bridge the CRI protection gap.  

4.2. CRI and DRF initiatives in the Philippines

The experience with regulations and the insurance industry in the Philippines was introduced by Mr Michael F. Rellosa, the Executive Director of the Philippines Insurers & Reinsurers Association (PIRA), an umbrella organization of general and non-life insurers in the Philippines, which advocates for, represents and supports the industry and its members.

The state of CRI for MSMEs in the Philippines was described by highlighting the existing Catastrophic Peril Cover, which covers, among other areas, earthquake, typhoon and flood. The climate perils can be insured against under the Fire Policy but are also available as independent products at an extra cost. The cover is purchased mostly by larger businesses, but also residential owners if required by the loan provider. Most of the population has limited access to this product.

It was said that PIRA and its members are involved – in varying degrees – in the on-going initiatives pertaining to CRI/DRF, which are all in various stages of development:

- **Insurance for Coastal Ecosystems**: UK-based initiative promoting risk transfer mechanisms against climate risks for coastal areas, e.g., mangrove forests and coral reefs,
- **Catastrophe Facility**: project by PIRA and the National Reinsurance Corporation of the Philippines, which aims to maximize local capital retention, pool the risks, seek a common reinsurance cover for residuals and build capacity to develop CRI products,
- **Agriculture Insurance**: Asian Development Bank-led program that aims to leverage the efficiencies and facilities of the private sector to promote CRI in the agricultural sector,
- **Climate Risk Insurance**: GIZ-led program that connects government and industry stakeholders to develop and pilot a CRI solution together with LGUs,
- **V20 Initiative**: enhancing post-disaster liquidity in the Philippines and other developing countries.

To conclude, the needs of the Philippines insurance sector were highlighted:

1. Up-to-date granular data on risks and losses for each relevant peril,
2. Model that helps to calculate and correctly price the risks to be covered,
3. A regulatory sandbox that could incubate viable products acceptable to all stakeholders,
4. A pilot launch and testing that informs the product development.

As a response to Ms Grant’s question on how well the five described schemes complement each other, it was said that mostly due to the different stakeholder groups involved, there are certain overlaps that could cause difficulty for the local industry. To mitigate this risk, it was said that various stakeholders should seek synergies and prioritize their efforts, an effort that would also attract the private sector to get involved more closely. Also, from PIRA’s perspective, the insurance supervisory authority in the Philippines should take the lead in coordinating the development of the CRI landscape.
4.3. Role of Regulator and the Government & Landscape of MI and CRI in Pakistan

Mr Syed Nayyar Hussain, the Director of the Insurance Division at the Securities & Exchange Commission of Pakistan (SECP), the financial regulatory agency that also governs the insurance sector.

To begin with, it was detailed that the regulatory framework for governing the MI and CRI should:
1) provide an enabling environment for MI and CRI,
2) encourage collaboration between different public and private partners,
3) recognize and encourage the utilization of technology, and
4) identify and remove main impediments.

SECP has encouraged an enabling regulatory framework through:

- Including inclusive insurance as one of the regulatory objectives, allowing allocating resources and prioritizing work accordingly,
- Launching a regulatory sandbox to encourage developing innovative and tech-enabled financial products, including MI and CRI (currently in the phase of selecting participants),
- Considering introducing and supporting dedicated microinsurers via amendments to the Microinsurance Rules, given the lack of interest by traditional insurers to work on MI,
- Considering amendments to the Primary Insurance Law (Insurance Ordinance), such as a chapter on microinsurance, enabling provisions for dedicated microinsurers, recognizing the use of technology and adding parametric insurance next to the indemnity insurance.

Concerning the support of the government, the National Disaster Risk Management Authority (NDMA) was showcased as a government-led mechanism to finance DRM, promote preventive measures (e.g., disaster-resilient building codes) and coordinate the efforts of federal and provincial DRM-related institutions. NDMA, in collaboration with the Synergy Group created by World Bank, created the National Disaster Risk Management Fund (NDRMF), a public not-for-profit company providing grants to projects that contribute to enhancing country’s resilience to climatic and other hazards, such as DRI and CRI solutions. The Federal Government also launched the National Financial Inclusion Strategy (NFIS) in 2015, the key strategy that promotes inclusive insurance and financial inclusion more generally. One of the 7 committees of NFIS is insurance, which prioritizes the increasing agricultural finance through the development of a National Crop Insurance Scheme.

Other CRI-related schemes targeted to the end-users were also exemplified: Crop Loan Insurance Scheme (from 2008), Livestock Insurance Scheme (2013) and Area Yield Index Insurance (2018), all of which are subsidized by either the federal or provincial government, are linked to loans and provide coverage for various perils. It was added that the landowners are validated via credit history or prior interactions with the government.

4.4. Panel discussion

MI expert Ms Andrea Camargo, a session attendee, was invited to share macro-level insurance solutions. The initial example was given of the Caribbean Catastrophe Risk Insurance Facility – a sovereign risk pool that protects 22 countries in the Caribbean and Central America, which expands from the role of covering governments to covering also the insurance groups directly through the recently piloted Caribbean Oceans and Aquaculture Sustainability Facility (COAST). The policy is purchased by the government and aims to protect the government (i.e., macro-level), but it incorporates a micro-level livelihood protection component, as the product covers losses of individuals and MSMEs caused by NatCats to fishing vessels, equipment and utilities, etc. Another example of a sovereign risk pool that was given is the African Risk Capacity, which provides the regulatory authorities
with tools to raise awareness and promote innovation on MI and CRI also at the micro- and meso-levels.

**Dr Malagardis** inquired if PIRA has examined whether DRM measures introduced by the government have resulted in reducing the residual risks and thereby enabled insurers to offer lower premiums on MI products, but **Mr Rellosa** said he does not have this information.

**Mr Loro** further asked which specific sandbox regulation policies does the insurance industry in the Philippines need to support developing CRI for MSMEs. **Mr Rellosa** emphasized the general need for the sandbox regime to lift legal obstacles that otherwise hinder product development. **Mr Hussain** complemented that the main objective of the regulatory sandbox in Pakistan has been to test solutions that are not explicitly addressed by the law or that require amending the law to be viable, bringing an example of a digital-only insurer that requires lower capital retention than obliged by the law.

> “Regulatory sandbox will be a joint learning experience for the regulator and the innovator.”  
> - Mr Syed Nayyar Hussain, SECP
III. Synthesis of key takeaways

The key takeaways from the four sessions are summarized below:

S1: What is Climate Risk?
- Business interruption arising from COVID-19 can be compared with business interruptions emerging from extreme weather events. Developing relevant insurance products can play a part in risk transfer.
- Negosyo Centres can be utilized to collect data from MSMEs on the COVID-19 emergency, which could, in turn, inform the insurance sector about developing relevant products.
- DTI business counsellors at the Negosyo Centres in the Philippines can be mobilized to promote existing CRI products among MSMEs.
- Insurance should be seen as part of an integrated approach, where it is used only after carrying out feasibility studies, taking preventive measures and identifying residual risks.
- There is a need for further research on why the uptake of MSMEs’ formal risk financing solutions is low.

S2: CRI data requirements and risk modelling
- Open data and models are valuable for democratizing risk insight for all actors, increasing transparency, reducing redundant work, enhancing efficiency and reducing costs.
- Co-development of risk models is essential to assure that local knowledge is embedded in the models and that all key actors have a common understanding of the risk.
- Catastrophe Models and risk modelling more broadly, while mostly used for insurance purposes, can benefit a wide range of other purposes, such as helping policymakers to prioritize different options for climate adaptation.
- Toolsets available in the developed countries should be made available also for the emerging markets to enable lower premiums and more informed product development.

S3: Developing insurance for MSMEs
- Insurers need to be responsive to the needs of the MSMEs and timely claim settlement is proof of responsive insurance products.
- There is a vital need for business interruption insurance products for MSMEs in the Philippines and many other Asian countries.
- A regulatory framework for MSME insurance is necessary to facilitate an enabling environment for developing the MI landscape for MSMEs.
- Technology promotes the uptake of insurance in the low-income sector.

S4: Micro vs meso vs macro insurance solutions: are regulators ready?
- A regulatory framework for MSME insurance is necessary to facilitate an enabling environment for developing the MI and CRI solutions for MSMEs.
- There are many micro-, meso- and macro-level insurance solutions being developed in the area of MI and CRI. However, there might be overlaps that could harm the local industries, and thus there is a need to effectively map and coordinate existing activities and actors.
- There is a need for a regulatory sandbox in the Philippines to ensure a more demand-driven product development. The regulatory sandbox allows both the regulator and the industry innovators to learn.
IV. Annexes

Agenda

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