

1. Key steps for formalization (Michael Hafeman)
2. The magnitude of informality (Martina Wiedmaier-Pfister)
3. Country examples
 - a) Philippines
 - b) CIMA/Inter-African Conference of Insurance Supervisors



1. Key steps for formalization

a. Obtain a clear picture of existing informal activities

- Entities underwriting insurance risks
 - MFIs, MCCOs, funeral parlors, pilots, etc.
 - Form, ownership, management, scope of activities
- Others involved in the delivery chain
 - Intermediaries, retailers, telecoms, etc.
 - Registration requirement might aid in identification



1. Key steps for formalization

b. Identify possible and preferred outcomes

- Licensing or transfer of risks to licensed entities
 - Regular or special licenses
 - With or without changes in business models
- Consider implementation issues
 - Numbers, industry structure, supervisory resources, support for enforcement
- Consider how customers will be protected



1. Key steps for formalization

c. Take steps to achieve acceptable outcomes

- Consider specific actions needed to get from current states to various outcomes
- Develop clear processes and realistic timeframes
 - Others might be able to assist, such as apex organizations, industry organizations, etc.
- Identify contingency plans
- Enforce the transition plans



2. The magnitude of informality

Informality bears important threats **such as consumer protection risks and regulatory arbitrage.**

Common **faces of informality** in inclusive insurance markets:

- Service providers (MFIs, cooperatives, retailers) who run an in-house insurance scheme for clients or members
- Funeral homes who carry risk but don't have a license
- Master policyholders who avoid an agent license
- Government schemes without an insurance license in agricultural or disaster insurance
- Pilot projects that are unlicensed in health, livestock, or any other risk area



1 – Informality in Philippines (back in 2006):

- Cooperatives self-insuring their members
- MFIs insuring their credit clients

2 – Strategic approach of the Insurance Commission, Central Bank, Cooperative Development Authority and Department of Finance - National Credit Council:

- 2006: IC Circular creating Microinsurance Mutual Benefit Associations
- 2010: National Microinsurance Strategy + Regulatory Framework + Joint Memorandum Circular
- 2010: Central Bank Circular BSP 683 on Rural Banks as insurance agents



3 – Options for transformation: Informal providers could

- partner with a licensed underwriter as agent
- form an insurance entity such as Microinsurance Mutual Benefit Association (other types of insurance entities like commercial company and coop insurance society are other options)
- Have its members join an existing authorized cooperative insurance society or an MI-MBA

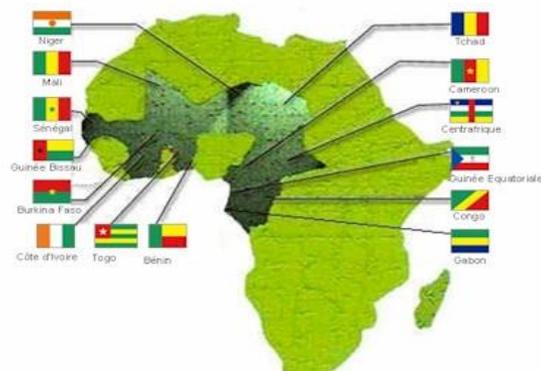
4 – Key features of formalization:

- New type of provider (MI-MBA) – and MI agent license
- Transitional process
- Joint effort of various authorities
- Capacity of supervisor

5 – Outcomes:

- 2013: 40 Rural Banks licensed as agents (25 active)
- 2013: 20 MI Mutual Benefit Organizations serving more than 7.5 million insured





- 14 Countries
- Population ~ 146 millions inhabitants
- 60% of the population/economy = informal sector
- Economy is driven by Agriculture (~ 30% GDP)

THE INSURANCE INDUSTRY

- 161 licensed insurers
- Premiums = 2 billion dollars ~ 1% GDP
- Less than 10% of the population covered by an insurance contract
- There is a lot of “informal” insurance activity (mostly in the solidarity-based associations and MFIs)
- “Informal” is assumed to represented 60% of the activity



“Formalization” - The process:

- **Principle: “informal is illegal”**
(Regulations require entities to be licensed before starting insurance operations – art. 326).
- **CIMA Approach to “formalization”:**
 - New regulation enacted
 - Training and Sensitization
 - Deadline (1-3 years) to comply
 - Enforcement



“Formalization” - Challenges and Perspectives:

- Many of the players of the informal sector need to be registered (people should be identified before supervised)
- The informal sector needs to be well organized
- The microinsurance regulation (adopted in July 2012) seeks to include those “informal” insurers
- Microinsurance regulation needs to be finalized before a deadline is given to informal actors to comply.



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