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access to insurance initiative

Regulatory Impact Assessments: Microinsurance Regulations in Peru and the Philippines

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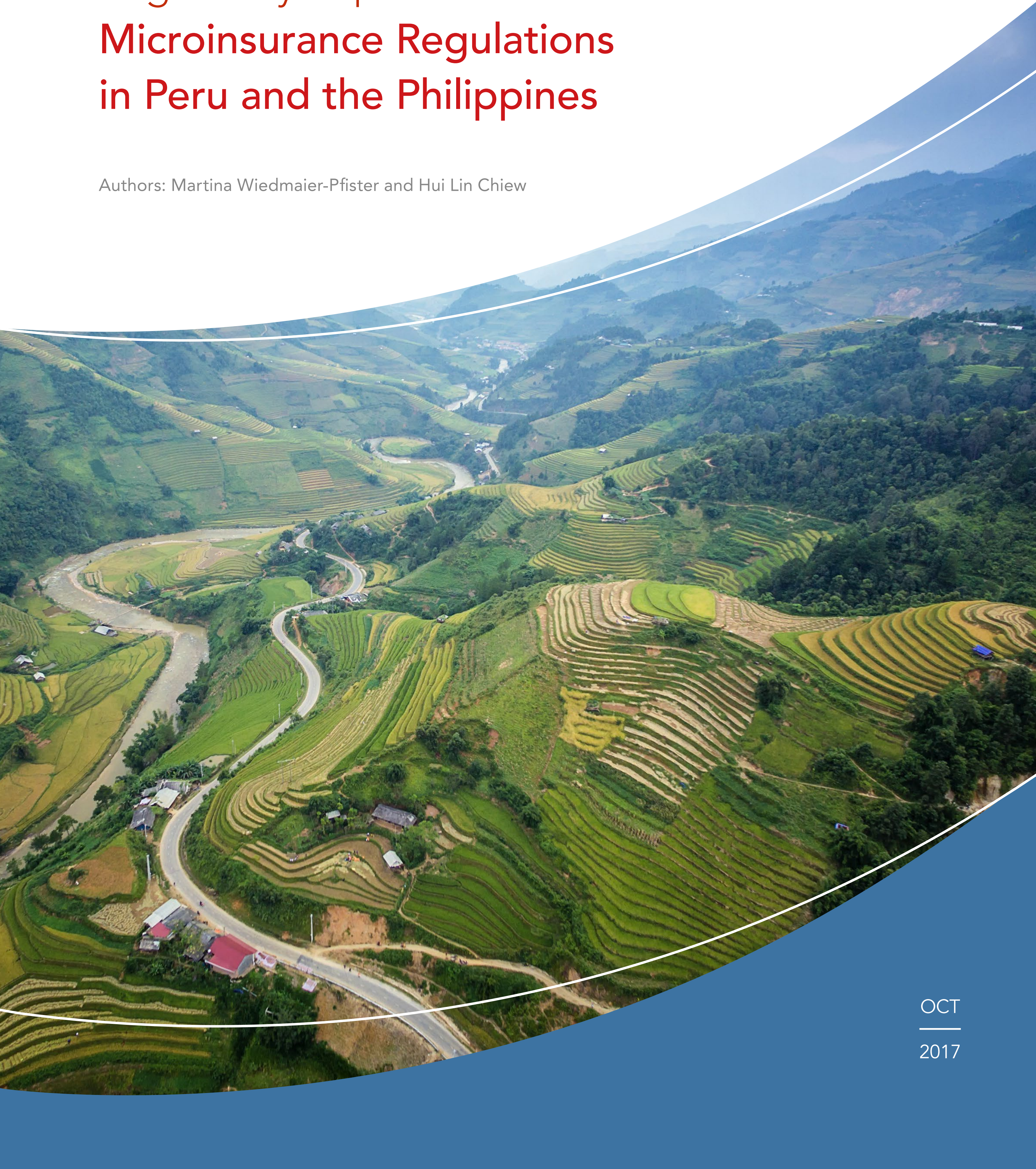

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Abbreviations

A2ii	Access to Insurance Initiative
ADB	Asian Development Bank
ADReM	Alternative Dispute Resolution Mechanism for Microinsurance
APEIM	Peruvian Association of Market Research Companies
APESEG	National Peruvian Insurance Companies Association
ASEAN	Association of Southeast Asian Nations
BBK	Buhay Bahay Kabuhayan
BCR	Banco Central de Reserva
BFA	Bankable Frontier Associates
BMZ	Federal Ministry for Economic Cooperation and Development, Germany
BSP	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
CAC	Cajas de Ahorro y Crédito (Savings and Credit Cooperatives)
CARD MBA	Center for Agriculture and Rural Development Mutual Benefit Association
CDA	Cooperative Development Authority
CDD	Customer Due Diligence
CL	Circular Letter
CMAC	Cajas municipales de ahorro y crédito (Municipal saving and credit unions)
CRAC	Cajas rurales de ahorro y crédito (Rural saving and credit banks)
DO	Department Order
DOF	Department of Finance (of the Philippines)
EDPYME	Entidades de desarrollo de la pequeña y micro empresa (Entities for the development and promotion of small and medium-sized companies)
ENIF	National Financial Inclusion Strategy
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
IADB	Inter-American Development Bank
IAIS	International Association of Insurance Supervisors
IC	Insurance Commission (of the Philippines)
ICL	Insurance Contract Law
IIF	Impact Insurance Facility
ILO	International Labour Organization
IMC	Insurance Memorandum Circular
JFPR	Japanese Fund for Poverty Reduction
JMC	Joint Memorandum Circular
KPI	Key Performance Indicator
KYC	Know Your Customer
LGU	Local government unit
MABS	Microenterprise Access to Banking Services
MBA	Mutual Benefit Association
MEF	Ministry of Economy and Finance
MFI	Microfinance Institution
MI	Microinsurance
MIDIS	Ministry of Development and Social Inclusion
MI-MBAs	Microinsurance Mutual Benefit Associations
MIN	Microinsurance Network
MIPSS	Microinsurance Innovations Program for Social Security
MIR	Microinsurance Resolution
NBA	Non-banking agents
NCC	National Credit Council (of the Philippines)
NGO	Non-governmental organisation
OECD	Organization for Economic Co-operation and Development
PEN	Peruvian Soles
PHP	Philippine Peso
PIRA	Philippine Insurers and Reinsurers Association
PLIA	Philippine Life Insurers Association
RBAP	Rural Bankers Association of the Philippines
RFPI Asia	Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia
RIA	Regulatory Impact Assessment
RIAII	Regulatory Impact Assessment Inclusive Insurance
RIMANSI	Risk Management Solutions, Inc.
ROI	Rationale-Objectives-Indicator
RSP	Regulatory, supervision and policy
SBS	Superintendencia de Banca, Seguros y AFP
SEC	Securities and Exchange Commission
SEGURO	Solvency, Efficiency, Governance, Understanding of MI, Risk Management and Outreach of Clients
TWG	Technical Working Group
USAID	United States Agency for International Development
USD	United States Dollar
WB	World Bank

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1. Introduction

Insurance supervisors[1] in emerging and developing markets have been developing policy, regulatory and supervisory approaches to foster markets for inclusive insurance for more than a decade[2]. With the support and collaboration of other government authorities, such as their central banks, and development cooperation agencies, several markets have undergone transformative changes. Looking back, what has been the impact of these measures? What can other supervisors learn by comparing the experience of countries that have already been through the process?

The Access to Insurance Initiative (A2ii) and the International Labour Organization (ILO) through its Impact Insurance Facility (IIF) have commissioned this study to assess the impact of microinsurance regulatory frameworks on developing inclusive insurance markets by way of a Regulatory Impact Assessment (RIA) (see Annex 3). The Philippines and Peru have been selected as case studies for two reasons. The first is, being early pioneers of measures to develop microinsurance via supportive policy and regulatory approaches, the two countries have among the longest experience with microinsurance regulations and thus offer a wealth of observed experience and rich lessons. Second, both countries took distinctively unique approaches based on their respective policy objectives and local market contexts, and the strategies adopted, thus enabling insights to be drawn from meaningful comparison of the measures each supervisor took.

The impact of inclusive insurance regulations on access to insurance is challenging to measure in concrete terms. Often key data, especially baseline data, is not available or readily segregated by the relevant segments. Additionally, while issuance of regulations is easily demonstrable, it is more difficult to measure enforcement or effectiveness of regulations. Even where some form of impact data is available, it is often difficult to attribute the results directly to regulations due to the many exogenous factors at play.

Given such limitations the authors have thus endeavoured to build the assessment by triangulating a range of sources. The study draws upon quantitative and qualitative data from supervisors, the views of supervisors themselves and other reputable specialists, as well as prior market and regulatory impact studies. It strongly relied on and benefitted from contributions from staff of the respective supervisory authorities as well as, in the case of the Philippines, staff of the project Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (GIZ RFPI Asia). Many meaningful lessons also emerged in analysing the underlying implementation processes. It is hoped that these learnings will be valuable in guiding future supervisory action.

1 The term "supervisor" refers to both supervisors and regulators.

2 For an overview of microinsurance regulatory frameworks see 'Lessons from a Decade of Microinsurance Regulation' (A2ii, 2016).

This RIA identifies and evaluates the outcomes of the microinsurance regulatory frameworks in the two countries up to year 2015, against their own stated policy objectives. The impact of these outcomes will be assessed by examining selected Key Performance Indicators (KPIs) reflecting the changes achieved. Where there are other regulations that significantly impact the outcomes of the microinsurance regulatory frameworks, such impact will be discussed where relevant. Each case study is structured along five questions:

1 **Objective: What was the policy intention?**
The point of departure, namely the policy objectives and rationales driving the regulatory efforts, as well as the overarching strategies

2 **Regulatory change: What was implemented?**
A closer look at the policy measures, namely implemented changes to regulatory environment and supervisory tools and techniques.

3 **Outcome: What has changed?**
Outcomes based on an assessment of quantitative indicators drawn from available data.

4 **Assessment: What objectives were achieved and what remains to be done?**
Analysis of impact on policy objectives, and remaining gaps and challenges faced.

5 **Synthesis: What are key observations and lessons?**
Lessons that can be drawn by comparing respective country contexts, approaches and impact.

Drawing on the two case studies the assessment concludes with a synthesis of the two country approaches taken and closes with overall conclusions relating the lessons that can be drawn for global replication.

2. Microinsurance in Peru

The overarching policy objectives for microinsurance can be formulated along three dimensions. These dimensions will serve as a benchmark for the RIA assessment:

- to create a dedicated regulatory framework helping insurers and intermediaries;
- to serve the low-income segment;
- while protecting the microinsurance consumer via a proportionate regulatory framework.

2.1 Policy: What was intended?

For many years, the Peruvian Government had been implementing a series of social programmes to promote social security and financial inclusion of the lower socioeconomic levels. Measures aiming to reduce the vulnerability of lower socioeconomic levels, namely levels C, D and E[3], include: health insurance for the most vulnerable, pension schemes for formal employees and microenterprises, developing the microfinance sector, subsidised disaster and weather-related agricultural insurance schemes, as well as mandatory insurance for traffic accidents and workers' compensation and life. Over the years, such efforts have improved the social protection of these segments to varying degrees.

2.1. | Country highlights Peru

As at 2014, products registered as microinsurance had 804,453 clients out of a population of 31 million Peruvians.

Counting all products that reach the low-income segments, there are 6.1 million insureds (based on 2013 data).

Main drivers of microinsurance in the Peruvian market are the Microfinance Institutions (MFIs), which distribute 84% of the 6.1 million microinsurance covers.

The microinsurance market is growing and in early stage of innovation, with an average growth of 14% during the past five years.

There is a large market potential. The 2014 A2ii diagnostic found that there are 16 million persons from the lower income segments who can be considered as the potential market for microinsurance.

The Superintendence of Banks, Insurance and Private Pension Fund Administrators (Superintendencia de Banca, Seguros y AFP, SBS; SBS from this point forward) took an active policy stance to promote microinsurance by way of specific microinsurance regulations[4]. The first microinsurance-specific regulation, the Microinsurance Resolution (MIR) 2007, intended to create an enabling regulatory framework for insurers and intermediaries to serve the low-income segment. It focused on widening the range of microinsurance distribution channels for insurers to utilise, while ensuring consumer protection.
Building on existing insurance law and regulations, the MIR created differentiated, tailored

3 According to the Peruvian Association of Market Research Companies (APEIM), the Peruvian population is divided between five socio-economic segments: A, B, C, D and E. A represents the rich; B, the upper middle class; C, the middle class; D, the working class and low-income families; and E, the marginalised poor. The population in segments C, D and E are the target group for microinsurance. They have an income of less than approximately USD 316 to USD 630, USD 158 to USD 315, and USD 159 per month respectively (USD 1 = PEN 2,789 as at 11/08/2013).

4 The aim of SBS was "Financial systems development and creation of a new regulatory framework to push the development of a microinsurance market; for reaching out to at least 1 million low-income families and thousands of MSMEs at national level."(Caceres, SBS, 2008, Piura Peru)

provisions for insurance directed at the low-income segment in key areas such as market conduct and distribution. This was followed by revisions to the MIR in 2009 and, importantly, the concurrent introduction of regulations on mass insurance in 2010. In 2015, a new MIR was developed based on dialogue with the industry and adopted in May 2016.

SBS also continuously played an active role in insurance education initiatives, which included targeted measures for the low-income segment. For instance, the SBS has developed materials on insurance and microinsurance, and an SBS website "Portal de Usuario" (user portal) which contains information on every registered insurance product, including price information on selected products, such as school insurance.

In 2013, the Peruvian government's national "Financial Inclusion Strategy"[5] formally recognised insurance as an essential component of its risk management public policy framework[6]. The "Financial Inclusion Strategy" was developed as part of a broader strategy to promote social inclusion. It was coordinated by the Inter-institutional Committee of Financial Inclusion[7], which is composed of various authorities[8]. In 2013, the key agency that looks into social welfare programmes, the Ministry of Development and Social Inclusion (MIDIS), published a resolution on financial inclusion, highlighting the importance of insurance as a tool for mitigating the impact of losses in relation to health, life and property.

5 The draft of the National Strategy of Financial Inclusion of 2012 was finally approved by the Peruvian Government on 22 July 2015. Its seven working lines are Payments, Savings, Credit, Insurance, Consumer Protection, Financial Education and Vulnerable Groups. The Action Plan for each line was defined on the basis of three features: Access, Usage and Quality. With regard to microinsurance, it establishes two priority activities in terms of usage, which are (1) review of the microinsurance regulatory framework and (2) simpler registration process of insurance and microinsurance policies.

6 See page 44 of 'Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved population' (A2ii, 2014)

7 In December 2016, by Supreme Decree 029-2014-EF, The executive branch of the government officially created the "multi-sectorial financial inclusion committee" (Comisión Multisectorial de Inclusión Financiera), presided by the Ministry of Economy and Finance (MEF). It is in charge of the execution of the National Financial Inclusion Strategy (ENIF). http://www.midis.gob.pe/index.php/es/centro-de-informacion/838-se-%20creo-la-comision-multisectorial-de-inclusion-financiera

8 The Inter-institutional Committee of Financial Inclusion is comprised of the Peruvian authorities Central Bank (Banco Central de Reserva, BCR), SBS, the MEF and the MIDIS.

2.2 Regulations: What was implemented?

Overview and evolution

The development of microinsurance regulations in Peru can be divided into three phases between 2007 and 2016, as set out in Table 2.1 below.

Table 2.1: Overview of phases in microinsurance regulation in Peru

Phase	Description	Main Features
1 (2007 – 2009)	Introduction of comprehensive microinsurance regulations, the MIR 2007, for the first time.	• Quantitative definition of microinsurance • Introduction of new distribution channels – microinsurance marketers • Introduction of conduct of business themes, i.e. products, policy or certificate, distribution, premium payment, claims settlement, complaints and reporting.
2 (end 2009 – 2015)	Major changes to the definition of microinsurance and the introduction of new law and regulations.	• Abolishment of the quantitative definition and introduction of less stringent product features, more distribution options, more flexible policy ending • Issuance of the mass insurance framework in 2010 • Introduction of Insurance Contract Law (ICL 2013) in 2013 (Law 29,946)
3 (2016 onwards)	Key revisions arising from recognising gaps in current framework, new market trends and consultations with industry.	• A new definition of microinsurance with mixed qualitative and quantitative parameters • A more efficient product registration process • Use of electronic policies and distance marketing • Conduct of business improvements, i.e. shorter claims settlement timeline, disclosure, training and supervision of intermediaries

Key elements of the Peruvian microinsurance regulations

The regulatory framework in Peru evolved in distinct ways throughout all three phases. This occurred in parallel with changes to other aspects of inclusive insurance-related policies and regulatory frameworks. Although the SBS followed a functional supervisory approach where microinsurance is offered by insurers and regulated by the SBS as a separate business line, these peripheral changes had significant implications on microinsurance. The following section will set out this evolution by looking into **four key elements**, each of which is unpacked below:

1. **the microinsurance definition**
2. **product and servicing-related rules**
3. **licensing, training and the role of intermediaries**
4. **supervisory tools and techniques**

1 The Microinsurance Definition:

→ Phase 1

Quantitative limits were introduced. The microinsurance definition was introduced in the MIR 2007 (SBS N° 215-2007). It was a primarily quantitative definition, setting monetary limits to the premium and coverage amounts. Microinsurance was defined as an insurance policy with up to USD 3,300 coverage and USD 3.3 monthly premium. The definition also included qualitative requirements such as that the policy must be simple and must respond to the protection needs of a specific insurance group.

→ Phase 2

Quantitative limits were abolished. In 2009, quantitative limits for microinsurance were abolished under the MIR 2009. It was replaced with a qualitative requirement to offer products that "respond to the profile and needs of a specific client group". A microinsurance product was to be identified by the aforementioned qualitative definition by considering elements such as the characteristics of the product and the distribution channel. Insurers were not required to register products as microinsurance. The SBS expected to be able to identify microinsurance products based on the distribution channel used.

Mass insurance was introduced. Significantly, in 2010, the resolution on commercialisation of insurance products (SBS No. 2996-2010) was introduced. This created a new regulatory classification of insurance products, termed "mass insurance", which were also founded on simplicity but defined in a less granular manner than microinsurance. These were defined as standardised products that (i) are constructed in simple language; (ii) are easy to understand and manage for policyholders, insured parties, and beneficiaries; and (iii) do not require special conditions in respect of the insured party or property; the simple acceptance by the insured party is sufficient[9]. Mass insurance could be sold via a wider range of entities than microinsurance, or "mass marketers" (see section on Licensing, Training and the Role of Intermediaries on page 11).

2 Product and servicing

→ Phase 1

Requirements on the product design and servicing of microinsurance:

- **Limitations regarding product features were introduced.** Exclusions, co-payments, deductibles and prior risk assessments at underwriting were not allowed.
- **Reasons for the termination** of the policy were limited. Coverage expired only when the policyholder defaulted the payment, or by voluntary decision from the insured to discontinue coverage under the insurance policy with a 30-day previous notice.
- **Claims** needed to be paid out within 10 days.
- **Complaints** may be made by the policyholder through the agent, and the insurer would be required to resolve complaints within 15 days, compared to 30 days for traditional insurance.
- **Simplified documentation requirements** were introduced. A certificate in case of a group policy, or a simplified policy in the case of individual policy was accepted as proof of coverage.

9 See 'Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved population' (A2ii, 2014) and 'Lessons from a Decade of Microinsurance Regulation' (A2ii, 2016).

→ Phase 2

More flexible product design or provide more granular detail:

- **Minimal exclusions.** Exclusions were allowed if kept at a minimum and commensurate with the coverage.
- **Minimal underwriting.** Prior risk assessments (e.g. health checks) were allowed if the specific type of insurance required it.
- **Reasons for the termination** of the policy were expanded, allowing for additional reasons beyond the 2007 stipulations such as policyholder fraud, expiry of policy and full payment of the coverage provided by the policy.
- **Minimum information requirements** for the simplified documentation e.g. policy contract were expounded in more detail.

The ICL introduced a number of transparency-related provisions[10], including requirements on disclosure of the distribution channel's commission, complaints mechanism, grace period and form of policy contract. For example, it was stipulated that an insurance contract must be in writing, and the existence of the contract may be evidenced by other means. The ICL also provides the consumer with a grace period of 30 day from non-payment of premium, where the insurer must make certain notifications to the policyholder, before the policy is allowed to be cancelled. These generally apply to mass and traditional insurance but not microinsurance due to the provision that microinsurance is regulated separately.

10 Regulatory changes in 2013 on the back of the ICL are as follows. Note that the following do not apply to microinsurance (i) SBS N° 3198-2013 on Premium payments for insurance policies; (ii) SBS N° 3199-2013 on Transparency of information and contraction of insurances; (iii) SBS N° 3201-2013 on Electronic insurance policies; (iv) SBS N° 3202-2013 on Management and payment of claims; and (v) SBS N° 3203-2013 on Complementary rules for health insurances (SBS).

3 Licensing, training and the role of intermediaries

Figure 1 presents the various types of intermediaries and the sequence of intermediary regulations.

Figure 1: Distribution channel evolution

Timeline	Prior to 2007	2007-2009	9-2009 onwards
Type of intermediation	Insurance brokers[1] Insurance promoters (agents)[1] Group policies Bancassurance		
		Microinsurance marketers	
			Mass marketers

Types of distribution channels allowed under each pathway:

- **Bancassurance**: Banks, MFIs[2], non-banking agents (NBAs)[3]
- **Microinsurance marketers**: individuals such as sales clerks; MFIs; alternative distribution channels[4]
- **Mass marketers:** Existing microinsurance marketers, insurance brokers, bancassurance marketers and insurance promoters

[1] Generally operate in the traditional insurance market. However, there are a few instances where brokers have been involved in identifying demand, as well as collaborating on product design and commercialisation.
[2] MFIs include: Banks; savings and credit cooperatives i.e. CMAC, CRAC, Cajas de Ahorro y Crédito (CACs); EDPYME; non-governmental organisations (NGOs).
[3] NBAs are payment networks for financial institutions and can be engaged via bancassurance agreements
[4] Alternative distribution channels include: Cash retailers (such as pharmacies and supermarkets), credit-based retailers, utility companies, associations and boards of rural irrigation, providers of natural gas for vehicles, support funds for public servants, municipalities, remittance companies, providers of home and business security services

→ Phase 1

The MIR 2007 created a new category of intermediaries, the "microinsurance marketer", specifically for microinsurance distribution. Traditional channels such as brokers and promoters could technically also sell microinsurance, but this was not considered commercially feasible in practice. At that time, insurance products serving segments C, D and E were mostly distributed via MFIs under bancassurance or group policies. The introduction of microinsurance marketers intended to introduce feasible and dedicated channels to reach segments C, D and E. Microinsurance marketers could be either individuals or organisations, such as sales clerks, MFIs, savings and credit cooperatives, trade unions, social organisations, money transfer operators, and others. Insurers and microinsurance marketers had to enter into a "distribution agreement". Microinsurance marketers that opted to enter into a group policy with the insurer also had to enter into a distribution agreement.

→ Phase 2

The MIR 2009 increased insurers' accountability for the conduct and quality of service provided by microinsurance marketers. Insurers were now required to inform the SBS on the microinsurance marketer used when registering a microinsurance product with the SBS. The minimum content of the distribution agreement was also prescribed. The functions that microinsurance marketers were allowed to perform were maintained. Similar to the MIR 2007, they could collect premiums, assist the policyholder in claims submission and pay benefits on behalf of insurance companies.

The 2013 resolution on NBAs (SBS 6285-2013) expanded the range of microinsurance marketers. The resolution on the NBAs or "cajeros corresponsales" (authorised NBAs to sell microinsurance products by leveraging on the bancassurance arrangement between the bank and the insurer)[11]. It was intended as an incentive to register microinsurance products as it specifically refers to the intermediation of "microinsurance products" that could be sold through the NBAs. In 2015, this resolution was replaced by the SBS 4797-2015 to streamline with the new ICL.

The 2010 resolution on commercialisation of insurance products introduced a new category of "mass insurance marketers". Before 2010, insurers could as a rule only distribute insurance via insurance brokers, bancassurance, insurance promoters (agents) or by entering into a group policy. Only registered microinsurance products were allowed to utilise other channels i.e. via the microinsurance marketers. The 2010 resolution explicitly allowed the distribution of "mass insurance" via a broader range of channels or "mass insurance marketers" that overlapped with other existing distribution arrangements. These were i) microinsurance marketers, ii) insurance brokers, iii) financial institutions (bancassurance); and iv) insurance promoters.

The mass marketer arrangement reduced the insurers' incentive to register microinsurance products under the MIR. Interestingly, it was more onerous to establish a distribution arrangement with a mass insurance marketer, compared to a microinsurance marketer. Unlike mass insurance marketers, insurers did not have to obtain the SBS's approval to use microinsurance marketers. Conditions to become a microinsurance marketer were also less strict, and there was no requirement to have a register of microinsurance marketers. However, the regulatory definition of mass insurance was simpler and less onerous to meet compared to microinsurance. After this resolution was introduced, many insurers started to distribute mass insurance via the new mass insurance marketers.

4 Supervisory tools and techniques

From 2007 to 2015, microinsurance underwent the same product registration process as traditional insurance. This was in theory a file-and-use process, with no prior product approval required. Insurers would have to indicate in the submission that the product was being registered as a microinsurance product. Microinsurance marketers were not required to separately register. In practice, SBS checked the policy documentation and technical notes submitted by the insurers to ensure that they were in line with the microinsurance definition. Mass insurance and bancassurance marketers, in comparison, had to be registered, and the products had to be approved under ICL in 2013. This product approval requirement applied to personal[12], mandatory[13] and mass insurance. These products would need to comply with the minimum conditions, but only certain clauses must be approved by the SBS. Microinsurance was exempted from this law.

11 SBS 6285-2013 Annex D, Article 4 k.

12 Insurance that covers life and health, meaning life insurance, personal accident insurance, and health insurance.

13 Mandatory insurance is insurance for which the uptake and the conditions of cover are specified by law.

The supervision of microinsurance is integrated across the overall supervisory system. Though microinsurance is regulated as a separate business line, the SBS does not have specialised persons or departments for microinsurance. The SBS follows a cross-cutting supervisory approach ("supervision cruzada") where microinsurance cuts across several its departments, such as the actuarial supervision, legal supervision and market conduct. Staff training in microinsurance was done not by specific in-house trainings but by attending microinsurance conferences and or training developed by international developmental partners, such as the one jointly organised by the SBS, A2ii and the Toronto Centre in 2015.

Insurers had to report microinsurance separately. The SBS generally monitors the data systems of insurers to ensure key information are reported and updated correctly and in a timely manner. For microinsurance, insurers are required to report separately to the SBS on a quarterly basis. The information required includes risk, product line, number of insured parties, insurance premiums, and claims paid. Timelines on claims payment and complaints management are monitored for microinsurance via onsite inspections.

2.3 Outcome: What has changed?

The central research question is whether the regulatory framework has helped the SBS achieve the policy objectives of the MIR, which was to create a dedicated regulatory framework helping insurers and intermediaries to serve the low-income segment while protecting the microinsurance consumer via a proportionate regulatory framework.

This section analyses five primarily quantitative indicators to consider whether the policy intentions above have been met. In terms of scope, this section focuses primarily on microinsurance products that are registered with the SBS under the MIR. Based on the data available, it then further investigates private sector-driven products beyond the definition of the MIR 2009 that could also be considered inclusive and their impact on the SBS's ultimate objective to achieve financial inclusion. These will be termed "inclusive insurance"[14].

The following are the chosen indicators:

1. **Access: the number of covers**
2. **Insurers: the number and diversity of insurers engaged**
3. **Products: microinsurance products registered and product diversity**
4. **Intermediaries: the number and diversity of intermediaries used**
5. **Client Value: claims/loss ratios**

14 These are products not registered under the MIR but are accessed by people in segments C, D and E, such as insurance distributed by MFIs, both voluntary and compulsory; which are mainly registered as mass insurance products. It will not cover social security, mandatory insurance and subsidised schemes i.e. products that are not led by insurers and intermediaries.

Indicator 1 →

Number of Covers[15] – 804,453 covered by microinsurance

› Registered microinsurance

Table 2.2: Number of covers under MIR 2009

Risk	2010	2011	2012	2013	2014
Personal accident & health	137,592	264,535	336,297	636,215	506,824
Other general	114	20,741	51,825	9,391	17,313
Life	193,052	255,615	229,681	293,472	280,316
Total	**330,758**	**540,891**	**617,803**	**939,078**	**804,453**

Source: SBS, 2015

› Inclusive insurance

If inclusive insurance products are included, the number of covers in 2014 was 6.1 million. This figure includes the 804,453 covers under microinsurance.

Highlights

- As Table 2.2 above shows, the MIR attracted significant interest from insurers in offering microinsurance products, growing 243% between 2010 and 2014. However, there was a sharp decrease between 2013 and 2014 due to a reduction in number of covers by one insurer.
- Among the 6.1 million covers, the 804,453 insured by MIR products represent only 13%. The rest are instead covered by mass, mandatory and personal insurance. Anecdotal evidence also suggests that it is not only segments C, D and E that use inclusive insurance, but higher-income segments as well.

6.1 million

inclusive insurance covers in 2014 – including 804.453 covers under microinsurance.

15 Covers are the total number of individual policies and each separate individual covered under a group policy.

Indicator 2 →

Insurers in microinsurance – 12 out of 18 companies sold microinsurance

› Registered microinsurance

Nine out of the 18 total insurance companies had registered MIR products at the end of 2014, with four dominating, as Table 2.3 indicates. Four insurers had approximately 87% of the microinsurance market in terms of total number of covers: El Pacifico Non-Life (26%), ACE (22%), La Positiva Vida (Life) (22%) and La Positiva (17%). At the lower end, two out of the remaining five (Rimac and Protecta) had a declining and negligible share, together accounting for only 0.52%.

Table 2.3: Number of covers by insurer, in order of 2014 market share

Insurer	Number of covers			
	2011	2012	2013	2014
1. **El Pacífico Peruano Suiza**	20,886	140,622	169,166	208,607
2. **La Positiva Vida Seguros y Reaseguros**	98,693	107,791	181,596	177,377
3. **ACE**	112,972	122,343	165,757	176,321
4. **La Positiva Seguros y Reaseguros***	131,799	77,731	307,205	136,223
5. SURA	90,497	74,05	60,87	53,621
6. El Pacífico Vida	24,649	30,864	34,948	34,918
7. Cardif	20,845	51,825	9,39	13,175
8. Protecta	28,495	12,577	5,541	3,065
9. Rimac	12,055	0	4,605	1,146
Total	**540,891**	**617,803**	**939,078**	**804,453**

* Lost more than half of its client base between 2013 to 2014
Source: SBS, 2015

Total industry microinsurance premiums grew constantly. At end-2014, they accounted for PEN 6,712,000 (approximately USD 2,248,000) after a continuous growing trend from the previous years. Of this business, life business constitutes 51% and while personal accident and health took up 48%, as shown in Table 2.4.

Table 2.4: Total industry microinsurance premiums

Risk	2010	2011	2012	2013	2014
Personal accident & health	919,021	1,227,810	2,458,704	3,353,225	3,209,802
Other general	3,303	64,833	114,552	86,150	96,090
Life	1,967,548	2,446,092	2,329,768	3,005,783	3,406,324
Total	**2,889,872**	**3,738,735**	**4,903,024**	**6,445,158**	**6,712,216**

Source: SBS, 2015

Inclusive insurance

If the wider perspective of inclusive insurance is considered the number of insurers involved is 12 out of the 18 insurance companies. The SBS also reported that the market share for inclusive insurance is also more evenly distributed, in that they are somewhat equally split between 10 out of the 12 insurers.

Highlights

- The MIR successfully attracted the participation of half the total number of insurers in the microinsurance market. As a proportion of the total insurance market, the total volume of USD2.2 million in MIR premiums represents a minimal market share of total insurance premiums collected[16].
- However, market concentration is high as a majority of the MIR market share is held by four insurers. If inclusive insurance is included, the market appears more competitive as there is a higher number of insurers involved (12 out of 18) and market share is more evenly distributed.

16 For the first half of 2013, total insurance premiums in Peru were USD 1,549 million based on exchange rates at that time. However, for microinsurance, it is more meaningful to consider the number of people served or risks covered rather than the premium volume given that the premium level per policy are typically very small in microinsurance.

Indicator 3 →

Active Products – 39 active products out of 109 registered microinsurance products

› Registered microinsurance product

A combined total of 109 products were registered between 2007 and 2014 (see Table 2.5 below)

- Between 2007 and 2009, 59 products were registered under the MIR 2007.
- Between 2009 and 2014, 50 products were registered under the MIR 2009.
- In the early days of the MIR 2009 however, there was an initial sharp increase in product registrations. 21 new microinsurance products were registered in the first 15 months. Subsequently, 29 new microinsurance products were registered in the next 36 months.

One-third of these 109 microinsurance products showed sales, as at end-2014. A majority of products and sales were by two insurers (Table 2.5 on page 19).

- 39 out of the 109 registered microinsurance products had active policies as of 2014, while 70 products or about two-thirds had no sales. However, under MIR 2009, out of the total of 50 products registered in that phase, only 19 products showed sales. As at 2013, 10 of the products account for 75% of covers[17].
- About 70% of the product registrations were from two insurers* (see table 2.5 number 6 and 7). These registered 72 of the 109 products under both MIR 2007 and MIR 2009. They sold a combined total of 313,600 covers as at end-2014 (see Indicator 4), accounting for 39% of the total number of covers under MIR.

Highlights

- › Product registrations were higher under the MIR 2007 than the MIR 2009. Based on the average of number of product registrations per month, product registrations in each phase were highest immediately after each MIR issuance but slowed down over time.
- › The number of products showing sales was also higher under the MIR 2007 than MIR 2009. This could be related to the fact that MIR 2009 coincided with the introduction of the mass insurance resolution. However, some insurers also reported that some products that were not successful under MIR 2007 were successfully relaunched as soon as the premium cap was abolished in 2009.
- › Most of the product sales were concentrated on a few insurers or a small proportion of active products.
- › There were many (172) products matching the features of microinsurance sold to segments C, D, and E but 80% of these are not registered as microinsurance under the MIR.

17 Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved population' (A2ii, 2014).

Table 2.5: No. of microinsurance products registered, by insurer

	MIR 2007			MIR 2009		Total
Year (Period)	2007 (11 months)	2008 (12 months)	9/2009 (9 months)	10/2009 - 2010 (15 months)	2011 - 2014 (36 months)	
1. ACE	0	2	1	4	1	8
2. Cardif	0	0	0	0	3	3
3. El Pacífico Peruano-Suiza	0	2	1	2	2	7
4. El Pacífico Vida	0	1	0	2	1	4
5. Sura	0	4	0	0	1	5
6. La Positiva*	**22**	**11**	**0**	**2**	**3**	**38**
7. La Positiva *Vida	**0**	**7**	**6**	**10**	**11**	**34**
8. Protecta	0	0	1	1	0	2
9. Rimac	0	0	1	0	7	8
Total products registered	**22**	**27**	**10**	**21**	**29**	109
Total per phase	**59**			**50**		
Total showing sales	**20**			**19**		**39**
Average per month	**2.0**	**2.25**	**1.1**	**1.4**	**0.8**	

Source: SBS, 2015

› Inclusive insurance products in the market

Taking the entire market i.e. including inclusive insurance beyond those registered under the MIR, there is a combined total of 172 inclusive insurance products (see Figure 2 on page 21 for actively sold products)[18]. Out of the 172 inclusive insurance products, 35 are registered microinsurance products with the SBS[19]. As such, 137 or 80% of products accessed by segments C, D and E fall outside the MIR framework. In other words, of the 172 products that showed sales, only 20% had been registered under the MIR and marketed as "microinsurance". The other 135 are formally registered with the SBS but in different ways: 117 are mass insurance products included in the bancassurance register; and 15 are mass insurance products included in the marketers register. Three are agricultural products, out of which two have government involvement (Catastrophic agriculture insurance and insurance for climate change adaptation) and one is registered as conventional insurance product (commercial agricultural insurance).

18 2014 data from field research of A2ii Diagnostic study team
19 2013 data from SBS.

Indicator 4 →

Product Diversity – Personal accident and health microinsurance constitute 63% of microinsurance covers

> Registered microinsurance

Personal accident and health microinsurance comprise the highest number of covers. As Table 2.6 shows, they account for 63% of the total 804,453 covers. 35% are life covers, and only 2% are other general covers. In addition, it was reported that the products registered under the MIR 2007 comprised life, personal accident and health risks, and no other general insurance products.

Table 2.6: Total covers under registered microinsurance products, by product line

Risk	2011	2012	2013	2014	2014 %
Personal accident & Health	264,535	336,297	636,215	506,824	63%
Other General	20,741	51,825	9,391	17,313	2%
Life	255,615	229,681	293,472	280,316	35%
Total	540,891	617,803	939,078	804,453	100%

Source: SBS, 2015

› Inclusive insurance

If inclusive insurance is included, credit life insurance takes up the highest proportion of covers. Out of the 6.1 million covers under the 172 inclusive insurance products, 87% are life, personal accident or funeral cover[20]. In more detail (see Figure 2 below):

- Credit life insurance constitutes 38% total covers. These products have helped drive life insurance growth over the last few years.
- Personal accident, term life and funeral insurance make up 27%.
- In contrast to registered microinsurance products, other general insurance products take up 23% of covers. This includes covers against fire; earthquake; theft, assault and burglary of housing; business and assets. It was also reported that uptake of general insurance is on the rise.

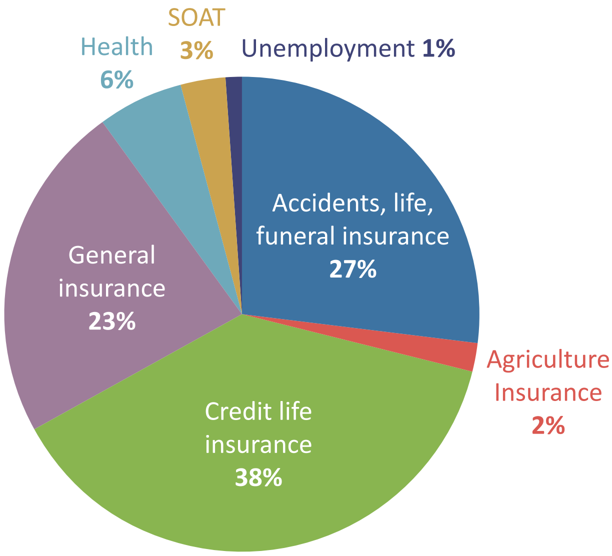

Figure 2: Inclusive insurance by product line (actively sold products)

Source: Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved population (A2ii Peru Diagnostic, 2014). SOAT means Seguro Obligatorio Contra Accidentes de Transito; and is a compulsory traffic insurance.

Highlights

- › Registered MIR products are dominated by life, personal accident and health covers, with only 2% of registered microinsurance policies being other types of general insurance products. There is higher product diversity in inclusive insurance compared to registered microinsurance products; 23% of inclusive insurance comprise of general insurance.
- › Overall, considering all MIR and other inclusive insurance products, however, credit life is the most dominant product. Credit life insurance is a customary feature of MFI loans and made compulsory by the MFIs.

20 Other life insurance products include mandatory life insurance for workers, compensation for workers in high risks jobs, and insurance products linked to the pension schemes that are offered in the workplace. Note that the basis for this data is different the registered microinsurance products i.e. based on number of persons and not number of covers. This particular data set was based on the 2014 A2ii Peru Diagnostic (2013 data).

Indicator 5 →
Variety of Distributers – 84% of intermediaries are MFIs[21]

84% of the intermediaries channelling inclusive insurance to the 6.1 million covers are MFIs, out of which 5% are CACs (Savings and Credit Cooperatives). Other than MFIs, 8% are non-banking agents; and 8% are traditional channels. MFIs have traditionally been the main insurance distribution channel for segments C, D, and E even prior to the introduction of MIR 2007, where MFIs typically made insurance available via group policies or bancassurance.

Traditional channels such as direct selling and brokers[22] account for another 8%. Most traditional channels play a limited role in the microinsurance value chain. However, there are some cases where brokers act in the capacity of third-party service providers to the distribution channel, such as a co-operative, and insurer in identifying demand, product design or commercialisation strategies. The existence of such arrangements is partly circumstantial; they arose as a result of past developments in Peru's regulations.

There are also business models that utilise alternative distribution channels to offer a variety of products but these are not numerous. Examples include the distribution of life policies via pharmacies; life, personal accident and health products to taxi drivers via a natural gas consumer club; property insurance via property security services companies; NGO consortiums; rural association; municipalities and so on. In most of the examples found, the distribution channel was also simultaneously a group policyholder[23], where clients would be enrolled under the group policy. In one instance, a utility company that was registered as a microinsurance marketer accounted for 533,722 policyholders with one single product.

Insurers show a marked preference for mass marketers, bancassurance marketers and group policies over microinsurance marketers. Products that are accessible to segments C, D, and E are currently distributed via a mixture of microinsurance marketers, mass marketers, bancassurance marketers, or group policies. After the mass marketer category was introduced, many insurers chose to distribute products via mass marketers instead of microinsurance marketers due to the microinsurance product definition being perceived as too narrow and inflexible. This was despite it being more onerous to register as a mass insurance marketer compared to a microinsurance marketer. In general it is also common that distribution channels enter into more than one distribution arrangement simultaneously. It was commonly found that the same product was distributed by both microinsurance marketers and mass marketers, or under a group policy held by the microinsurance marketer on behalf of clients.

Highlights

- The introduction of multiple pathways for registering distribution channels has been a key enabling factor that allowed insurers to innovate and explore diverse distribution channels targeting segments C, D and E. However, insurers appear to strongly prefer other pathways over microinsurance marketers.
- MFIs also continue to be the dominant distribution channel for the inclusive insurance market, which was the case even before the MIR was introduced in 2007. The industry has attempted to diversify and innovate distribution models through alternative distribution channels that target various customer sub-segments and offer diverse products. However, these channels remain a small part of the market.

21 For this section, the authors were not able to obtain data delineating microinsurance marketers from other intermediaries specifically.
22 Out of the 945 brokers in Peru, only 6 distribute microinsurance products.
23 It is not explicit in the law or regulations as to whether a distribution channel can simultaneously hold a group policy under which clients would be enrolled. However, there is a general principle that an entity can only hold a group policy on behalf of other individuals if the entity also has insurable interest under the product.

Indicator 6 →

Client Value – MFIs have strong bargaining power relative to the insurers

Aggregate claims ratio of microinsurance was 21.23% for 2014. The microinsurance business volume at end-2014 generated with the 804,453 MIR covers was PEN 6,770,847 (USD 2,070,595). The total claims amounted to PEN 1,437,704 (see Table 2.7 below). Over the years, there was little variance in the total amount of claims. Data on claims ratio is currently lacking. However, it was reported that meeting the required claims timeline for microinsurance, especially in rural areas, has been a challenge.

MFIs are reported to have strong bargaining power relative to the insurers due to the fact that insurers rely heavily on the MFIs to access their client bases. MFIs have been observed to charge high commissions (up to 60%). Such high distribution costs could lead to higher premiums relative to level of coverage, thus reducing client value.

Table 2.7: Claims by risk category for microinsurance products registered under MIR 2009

Claims by Risk (PEN)					Claims Ratio 2014
Risk class	2011	2012	2013	2014	
Personal accident & health	387,267	347,227	808,698	614,826	
General	52,634	190,786	19,390	19,870	
Life	1,037,863	1,041,034	967,877	803,008	
Total	**1,477,764**	**1,579,047**	**1,795,965**	**1,437,704**	**21.23**

Source: SBS, 2015

Highlights

- An aggregate claims ratio of 21.23% across all three risk classes of MIR is similar to the average microinsurance claims ratio in other countries in the Latin American region[24], especially in the first few years of business.
- A concern is that MFIs, which are the dominant intermediaries, have strong bargaining power relative to the insurers. They have been observed to charge high commissions, thus being in a position to erode client value.

24 The Landscape of Microinsurance in Latin America and the Caribbean 2014 (Microinsurance Network, Munich Re Foundation and Microinsurance Centre, 2015)

2.4 Impact assessment: What was achieved?

The assessment of whether the regulatory changes achieved the policy objectives will be guided by these three key questions:

1. **Is the low-income segment served?**
2. **Did the microinsurance regulatory framework help insurers and intermediaries reach out to the low-income segment?**
3. **Is the low-income consumer protected?**

The following conclusions are derived from analysing what was intended against what was ultimately achieved in practice. The scope of this assessment extends only up to the impact of the MIR 2009, and also other complementary laws and regulations passed or issued in the period of 2010 – 2013 that support the MIR. The SBS Peru has since introduced a revised version of the MIR in 2016, which introduces regulatory changes intended to address some of the challenges discussed in this assessment. However, as these regulations are relatively recent, they have not been included in this impact assessment (see Box 2.1 on page 6) as their impact can only be measure a certain amount of time after introducing them.

1 Is the low-income segment served?

Assessment	Rationale and Indicators
Overall increase in uptake of microinsurance	As at end-2014, there were 804,453 microinsurance covers. Assuming each cover is a separate individual, this comprises 5% of the total potential market of 16 million. Other than a decrease from 2013 to 2014, the number of covers increased over the past 5 years.
Beyond, MIR, high uptake of inclusive insurance	As at end-2014, there were 6.1 million covers under inclusive insurance, comprising 38% of the total potential market of 16 million. This includes the insured under the MIR described above.
High number of microinsurance products available	As at end-2014, there were 109 registered microinsurance products, of which 39 had active policies. Of the 39, ten are selling well, accounting for 75% of covers.

2 Did the microinsurance regulatory framework help insurers and intermediaries reach out to the low-income segment?

Assessment	Rationale and Indicators
High industry participation in the wider inclusive market	Nine out of the 18 insurers have registered 109 MIR products, out of which four insurers dominate the market selling 39 products. Total premiums grew constantly. Considering the full spectrum of inclusive insurance, the number of insurers involved rises to two thirds, i.e. 12 out of the 18 insurers. However, the industry provided most of these 6.1 million coverages outside of the MIR.
Increased range of available distribution channels that reach the wider inclusive market	The introduction of the MIR and other distribution frameworks introduced multiple new channels. This provided insurers and intermediaries with diverse distribution channels to distribute microinsurance products. The mass insurance framework also created an alternative regulatory option to reach segments C, D and E. However, with 117 active products sold via the bancassurance channel, traditional distribution channels were still highly relevant.

3 Is the low-income consumer protected?

Assessment	Rationale and Indicators
Clients of MIR products are assured a minimum level of product suitability via product design and servicing requirements	The MIR 2007 ensured that registered microinsurance products would meet a minimum level of suitability for segments C, D, and E. The definition required that microinsurance was simple and met the needs of the low-income. It prohibited exclusions, co-payments, deductibles and prior risk assessments, limited reasons for policy termination, set a claims and complaints timeline and required simplified documentation. This form of protection does not apply to clients of inclusive insurance products outside the MIR framework.
Clients of non-MIR products also benefit from strengthened transparency stipulations under the ICL 2013	For non-MIR inclusive insurance, the ICL 2013 introduced a number of transparency related provisions, including requirements on disclosure of the distribution channel's commission and complaints mechanism, grace period and form of policy contract. For example, it was stipulated that an insurance contract must be in writing, and the existence of the contract may be evidenced by other means. Notably, these provisions are not valid for MIR.

2.5 Strategic Lessons: What remains to be done?

Over the years, the SBS created multiple categories of inclusive insurance products and distribution channels: microinsurance, mass insurance, mandatory and personal insurance. This was intended to create a range of products to meet the needs of the various target groups, while creating sufficient channels to enable the industry to employ various distribution models. The introduction of the microinsurance marketer category under the MIR theoretically enables an insurer that is genuinely interested in serving segments C, D, E to explore innovative distribution options, while product design and servicing stipulations ensure consumer protection proportionate to the needs of a vulnerable low-income consumer. However, a large proportion of inclusive products remain outside the MIR, and the microinsurance market is currently dominated by few product lines, intermediaries and insurers. The following section explores what remains to be done and why, from a strategic and regulatory point of view.

1 Streamline inclusive insurance initiatives and the various applicable regulations to ensure no unintended opportunities for the industry to practice regulatory arbitrage occur.

A large proportion of inclusive products remain outside the MIR and the industry currently prefers other regulatory pathways over the MIR.

- 77% of the 172 inclusive insurance products are in mass, mandatory and personal insurance and are not subject to the consumer protection regime provided by the MIR.
- Many insurers did not use the channel options of the MIR but preferred to continue distributing under bancassurance or group policies rather than to register their products as microinsurance.
- The introduction of the mass insurance marketer in 2010 further compounded this as insurers preferred to distribute inclusive products as mass insurance.
- Insurers also used more than one regulatory pathway simultaneously for the same product e.g. distributing a registered microinsurance product via mass marketers and therefore also registering the product with the SBS under two registers (mass insurance and microinsurance).

This situation reduces the effectiveness of consumer protection for the low-income segment. For instance, the MIR requires microinsurance products to be simple products with minimum exclusions and no deductibles, and that claims are paid within 10 working days. However, in cases where products were registered both as a microinsurance product and as a mass insurance product, this led to confusion, as some clients expected to receive claims within the 10-day timeline, but did not as the insurer had categorised the product as a mass insurance product. Such a lack of transparency may be detrimental for the new-to-insurance client expecting a rapid pay-out and goes against the intention of the MIR and the consumer protection objectives for the low-income segment. This could lead to further distrust between segments C, D, E and the insurance industry.

The SBS's internal evaluations and dialogues with the industry revealed that insurers found the MIR product parameters too narrow and financially non-viable. The specific issues raised were (i) the indefinite cover, i.e. termination of coverage only for reason of non-payment of premium or willingness of the insured, did not give the insurer the opportunity to end the coverage as a result of fraud or high claims experience, or a significant change in the risk profile; and (ii) the clauses "no co-payments and no exclusions allowed" were perceived to be narrow. Some insurers registered what were essentially downsized traditional products as microinsurance, with little consideration of genuinely meeting the low-income segment's needs, as their main purpose was to use the newly-available distribution channels. The SBS has since taken steps to streamline between microinsurance and mass insurance in the new micro-insurance regulations, issued in May 2016 (see Box 2.2 on page 30).

2 **Diversify the voluntary microinsurance market, with particular focus on increasing genuine industry participation, distribution model innovation and range of high-quality products.**

The market is currently dominated by a limited number of product lines, intermediaries and insurers. Distribution models have also not diversified much since the introduction of the MIR despite the many types of distribution channels allowed under various regulations.

- Inclusive insurance products including MIR registered products are disproportionately life dominated. They mainly comprise low-value accident insurance and, most significantly, credit life.
- Ten MIR products make up three quarters of the insured and most registered MIR products (70 of 109) have no sales.
- 77% of the 172 inclusive insurance products which show sales fall outside the MIR in mass, mandatory and personal insurance.
- Four insurers constituted 87% of total microinsurance premiums in 2014, while the rate of registration of new products is plateauing. The business performance of the others has been underwhelming, despite initial product registrations.
- 84% of the intermediaries currently channelling inclusive insurance are MFIs. Alternatives such as utility companies, retail stores and pharmaceuticals are not yet utilised at scale.

These indicators highlight several possible implications on access and client value:

- If the number of insurers are too few, this could significantly affect access to microinsurance products if any of the insurers withdraws or reduces their product offering. For example, the sharp reduction in the number of covers of one non-life insurance company (see Table 2.2 on page 15) in 2014 led to a 15% drop in the number of covers compared to the previous year, reversing the growth trend in number of covers since 2007.
- The current lack of diversity of products may mean that despite the high number of inclusive insurance covers, clients' needs are not being met beyond credit life insurance. For products under the MIR in particular, it may be worth examining why general insurance has not taken off.
- This is compounded with the high concentration of a few dominating MFIs, which leads to strong bargaining power over insurers and ability to charge high commissions. MFIs as channels have influence on their clientele, however, these MFIs seem reluctant to push for product innovation.
- The microinsurance market is unlikely to grow in a genuinely competitive and demand-driven manner if regulations do not incentivise insurers to shift away from incumbent distribution strategies within their comfort zone.

There could be a number of reasons behind these circumstances. It is possible that the initial product registrations reflect a positive outlook from the industry; however, it is equally probable that insurers may be demonstrating support for a regulatory initiative, or may have rushed into registering products in the early stages. Other factors such as low demand and awareness, unsuitable product features or operational challenges in the distribution and servicing, may have impeded the business. For example, it could be an issue of disclosure – marketing efforts and explanation of products to clients may have been insufficiently tailored to the low-income segment. It is important to investigate the reasons and address them in a targeted manner by either regulatory adjustments, changes in the supervisory approach or other measures or a combination thereof. Some examples are as follows:

- **Provide more clarity to the industry and public on the applicable regulations.** Streamline and clarify applicability of the various consumer protection provisions under regulations and the law. The ICL 2013 was written such that microinsurance was regulated as an exception from the Law. As such, some new consumer protection requirements under the Law are not applicable to microinsurance. However, it is not always clear what the applicable requirements are. In some cases, traditional insurance was subject to stronger consumer protection provisions than microinsurance. This could mean that, on one hand, microinsurance providers are able to enjoy less onerous requirements. On the other hand, low-income clients may not be adequately protected. However, it is worth considering that some consumer protection provisions may not be practical for microinsurance. For example, even if commissions are disclosed, the low-income segment may not read or understand the significance of this information.
- **Generate genuine industry interest in serving segments C, D and E to spur innovation and product diversity, including in the area of general insurance.** This could possibly be done by creating more industry awareness of the potential distribution channels and market opportunities. Peru has a rich landscape of client aggregators bringing segments C, D, and E together that could make good alternative distribution channels. MIR 2007 opened up these channels and made them available for the industry to utilise. The NBA regulation 2010 also had this objective. However, the industry appears to be in early stages of exploring alternative distribution channels and largely remains with existing distribution models such as bancassurance and group policies. It is important to have insurers that are genuinely interested in meeting the protection needs of segments C, D and E in order for the market to organically grow, and for product innovation and diversity to develop.
- **Collect and analyse more meaningful supervisory information on client value.** Data on client value parameters such as claims ratios and renewal data is currently lacking, while anecdotal evidence reports that it has been a challenge meeting the required claims timeline for microinsurance and timelines currently vary between 24 hours to much longer. While it is good that the MIR currently requires a fast claims payment timeline (10 days), it is important that the regulatory regime is flexible enough to accommodate realistic constraints faced by insurers in meeting such a requirement. If supervisory corrective measures are too severe, this could discourage innovation and deter insurers from entering the inclusive insurance market. For example, SBS's imposition of sanctions in the form of a heavy fine on insurers that breached certain MIR requirements was viewed as disproportionate by the industry.

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2.2 | New Microinsurance Resolution 2016 (SBS 2189-2016)

In response to internal evaluations by the SBS, recommendations under the A2ii/ IADB project and feed-back from the industry, the SBS issued a revised microinsurance resolution (SBS 2829/16) in May 2016. It should be noted that a number of challenges highlighted in this RIA are partly addressed under the new regulations. The changes can be summed up in two intended outcomes:

1. Incentivise registration of microinsurance products with the SBS and reduce regulatory arbitrage

- **Definition:** Combined qualitative and quantitative definition of microinsurance in order to allow more flexibility in the product development while ensuring the delineation of microinsurance is clear. Article 3 established the definition of microinsurance along the three parameters:
  a. It is designed to meet protection needs of, and is affordable to, the low-income and / or micro entrepreneurs;
  b. it is marketed by marketers whose target audience includes people with low incomes and / or micro entrepreneurs.
  c. the monthly premium does not exceed two percent (2%) of the national minimum wage.

- **Claims:** Extended claims timeline to 20 days from receipt of complete documentation. This was in response to the industry's concerns that the previous 10-day period was too difficult to meet. This is a challenging barrier, as the penalties for not honouring the claims within the 10-day timeline are the same as for all other types of insurance and is therefore perceived as disproportionate to the typical small amounts of microinsurance claims.

- **Product registration:** Changed from a product approval process, that previously took up to four months, to a 15-day fast-track ex-ante process. This was in response to the recommendation that the time taken, complexity and administrative costs of product registration needed to be reduced, while increasing capacity of the supervisory staff handling the registrations. As a result, article 14 set out that the SBS would respond to product registrations within 15 business days of receiving the complete documentation from the insurer. Instead of the previous practice of reviewing all documents submitted by the insurer, the SBS would review the submission against a concise list of minimum conditions that the product is required to meet. The product can be marketed on the day following SBS's confirmation. In comparison, mass, personal and mandatory insurance are subject to a 90-day process under the ICL 2013. The SBS would also adopt a more flexible perspective when reviewing microinsurance product features, for example by allowing certain exclusions, deductibles and co-payment arrangements if they are necessary due to the nature of the coverage, and not unfairly prohibitive for the client e.g. deductibles in certain types of health insurance.

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- **Distribution channels:** Removed requirement for microinsurance to be sold only via physical offices and introduced flexibility to conduct distance marketing using new communication means such as e-mail or telephone.

- **Digitalisation of contracts:** Permit issuing electronic policies (related to SBS 3201-2013).

2. **Improve consumer protection and market transparency**

- **Accountability of insurer:** Article 16 set out that Companies are responsible for the conduct and performance monitoring of its intermediaries and therefore for any arising damages that may arise to the clients. Any communications or premium payments made by the client to intermediaries are considered communicated or paid to the insurer.

- **Disclosure of commissions:** Introduced requirement to disclose intermediary commissions in the policy contract in order to improve transparency and competition, in response to observations that the microinsurance market was dominated by certain distribution channels charging very high commissions.

- **Training of intermediaries:** Article 19 set out that companies must ensure intermediaries are adequately trained based on an appropriate annual training schedule to inform clients on the following aspects:

a. Coverage, benefits and exclusions of microinsurance products
b. Procedure for purchasing microinsurance
c. Payment of premium and effects of non-payment
d. Procedure and requirements for submitting a claim
e. Time and procedure for claims payment
f. Procedure for answering inquiries and complaints

The insurer is also responsible for providing intermediaries, by physical or electronic media, the necessary documentation and brochures to ensure that the intermediary or client can access clear and comprehensive information.

The SBS also undertook important complementary measures to the regulations. In the area of financial education, the SBS is conducting several projects to develop targeted graphic and audiovisual material on insurance to strengthen the knowledge of the low-income segment. The SBS is also taking measures to improve supervisory staff capacity and systems to deal with microinsurance and upcoming market developments.

Source: SBS N° 2829-2016, Resolution Microinsurance, May 2016

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3. Microinsurance in the Philippines

Over the years, financial inclusion policy in the Philippines progressed from being largely focused on savings and loans towards having a broader focus, which includes insurance. Historically, the developments surrounding microinsurance originated from a microfinance policy that also incorporated risk protection. In 1997, the 'National Microfinance Strategy' laid out the vision "to have a viable and sustainable private micro (financial) market with the government providing a supportive and appropriate policy environment to the market". This was set out in the national development agenda, namely the 'Philippine Development Plan 2004-2010', which considered giving the disadvantaged sector preferential access to social protection, safety nets and access to financial services such as microfinance. The plan tasked the government with providing an enabling environment for private business and enterprise, which are seen as the 'engines of growth' in the sense that jobs and outputs are created by the private sector. In subsequent years, Philippine policymakers specifically identified a role for microinsurance in financial inclusion efforts.

3.1 | Key 2014 Microinsurance Highlights

At the end of 2014, 63 of the total 138 insurers (life, non-life and composite) were engaged in microinsurance. Of the 104 commercial insurers, 42 had some level of engagement in microinsurance. In addition, 21 MI-MBAs were fully dedicated to microinsurance. These insurers had underwritten policies worth PHP 3 billion (USD 60.5 million) in life and non-life business. 31 million clients have cover from products registered as microinsurance.

The main drivers of microinsurance are the MI-MBAs. As of 2014, they were responsible for 56% of microinsurance premiums and 44% of the 31 million insured.

Between 2012 and 2014, the number of lives covered grew on average by 26% (for the MI-MBA), and 34% (for commercial life companies) and 11% (for non-life companies).

Source: Regulatory Impact Assessment Microinsurance Philippines, GIZ RFPI, 2015

The *Philippine Development Plan 2011-2016* is an overarching policy document with a broader focus. It envisions a "regionally responsive, development-oriented and inclusive financial system which provides for the evolving needs of its diverse public" as well as a financial system in which "everyone has access to all types of financial services, including insurance services". The plan includes the use of alternative products and the delivery of financial services (such as microinsurance) in underserved and unserved areas, and the use of agent banking and other non-bank financial institutions as delivery channels.

These broader financial inclusion policies paved the way for the adoption of the first microinsurance circular in 2006, and a dedicated microinsurance strategy in 2010 that forms the backbone of microinsurance regulations in the Philippines. Drafted based on a consultative process among public and private stakeholders, there were four key strategy papers:

- 'National Strategy on Microinsurance' (2010)
- 'Regulatory Framework for Microinsurance' (2010)
- 'Roadmap to Financial Literacy on Microinsurance' (2011)
- 'Alternative Dispute Resolution Mechanism (ADReM) Framework for Microinsurance' (2012)

3.1 Policy: What was intended?

The main objectives were to increase private sector participation, promote formalisation and build financial literacy, while ensuring consumer protection.
In summary, the overarching policy objectives for microinsurance can be formulated along three dimensions. These dimensions will serve as a benchmark for the RIA assessment:

- ensuring broad-based access to microinsurance;
- provided by the private sector;
- while protecting the insured.

3.2 Regulations: What was implemented?

Overview and evolution

Early momentum for microinsurance regulations can be traced back to 2001 when the first dedicated microinsurance provider CARD, a large and prominent MFI, received a licence as a mutual benefit association (MBA) (see Box 3.1 on page 32). The formal starting point for microinsurance regulation development was in 2006, when a dedicated circular to microinsurance was issued. Since then, the microinsurance market and regulatory and supervisory framework in the Philippines has continually and comprehensively evolved. The period between 2006 and 2015 can be broadly split into three main phases, as set out in the Table 3.1 below:

Table 3.1: Three phases of national strategies and legal and regulatory instruments

Phase	Description	Main Features
1 (2006 – 2009)	Definition of microinsurance, the first proportionate rules on product and distribution and creation of a new tier of microinsurance providers	• IC Circular creating MI-MBAs, defining microinsurance, setting product and intermediary standards • Lighter Know Your Customer (KYC) requirements • Central bank (Bangko Sentral ng Pilipinas, BSP) rule allowing rural and thrift banks to market microinsurance
2 (2010 – 2013)	Introduction of comprehensive set of national strategies for microinsurance including a proportionate regulatory framework	• Joint formalisation approach across supervisors • One overarching strategy, the National Microinsurance Strategy (2010), and three additional microinsurance strategies: Regulatory Framework for Microinsurance, The Road Map to Financial Literacy and the Alternative Dispute Resolution Framework • A series of legal and regulatory instruments putting into effect the strategies, mostly of the IC but some involving other authorities • Circular and system on separate performance monitoring for microinsurance (SEGURO)
3 (2015 onwards)	The regulatory framework was broadened in scope and refined based on market experience by way of a revised overall regulation and regulations for specific lines	• Issuance of IC regulations called "Enhanced Regulatory Framework" addressing microinsurance distribution product bundling and reinsurance • Issuance of IC regulations for certain sectors via three regulatory frameworks including MicroAgri Framework, Micro Pre-need Framework and MicroHealth Framework

→ Phase 1 (2006 – 2009) – Microinsurance definition, and first proportionate rules relating to products, distribution, KYC and new tier of providers

Prior to 2006, the Philippines faced the challenge of high informal insurance activity as well as the situation that it was not clear what "microinsurance" meant. Importantly, the only insurers[25] that were formally providing insurance to the low-income segment were Cooperative Insurance Societies (or cooperative insurers)[26], one MBA (Center for Agriculture and Rural Development Mutual Benefit Association, CARD MBA) and some MFIs partnering with an insurer[27]. There was significant informal insurance activity conducted by MFIs, particularly by cooperatives providing in-house mutual assistance schemes to their members or others providing credit life insurance. These informal operations cut across the jurisdictions of various authorities, namely the Cooperative Development Authority (CDA), the Philippines's central bank (Bangko Sentral ng Pilipinas, BSP), the Securities and Exchange Commission (SEC) and the IC. As such, several key changes that set the momentum and foundation to microinsurance developments were made.

- **In 2006, the IC issued the Insurance Memorandum Circular (IMC) No. 9-2006 to formalise the informal activities and provide a definition of microinsurance products**. This heralded the formal start of microinsurance regulation in the Philippines. The circular defined a new tier of microinsurance risk carriers, the MI-MBAs, and provided a microinsurance definition that was applicable to microinsurance business by all types of insurers. The circular also included dispensations related to product characteristics and distribution. Although IMC No. 9-2006 applied to all microinsurance business regardless of insurer type, most stakeholders interpreted the circular as being applicable to MI-MBAs only. Therefore throughout this phase, only very few of the 27 commercial and cooperative insurers were involved in the microinsurance market under the partner-agent model, generally limited to credit life insurance[28].
- **The IC also issued circulars addressing other key enabling aspects of microinsurance operations.** These include circulars on the applicability of risk-based capital requirements for the three types of insurers: MI-MBAs, life and non-life insurers (IMC 2, 6, 7 and 11-2006). Proportionate Know-Your-Customer and Customer Due Diligence requirements came into force via circular letter (CL No. 15-2007), which rationalised and simplified these requirements for low risk customers and transactions which are not susceptible to money laundering.

New regulation of Microinsurance Mutual Benefit Associations

25 For this section on the Philippines, "insurer" collectively refers to all types of formalised providers of microinsurance: commercial insurers, Cooperative Insurance Societies and MI-MBAs.

26 Under the Cooperative Code, cooperatives are allowed to operate Cooperative Insurance Societies and in doing so provide insurance to their members. However, many cooperatives also informally provided mutual assistance schemes to their members (A2ii, 2008)

27 MFIs comprise rural banks, cooperatives and microfinance NGOs. They are primarily regulated by the BSP, CDA and SEC, respectively.

28 See Llanto, Geron and Almario, 2008

→ Phase 2 (2010 – 2013) – Refined proportionate regulatory framework

The publication of four key papers, particularly the *National Strategy on Microinsurance* and the Regulatory Framework for Microinsurance in 2010 paved the way for a comprehensive set of proportionate regulations and complementary measures. The main objectives were to incentivise the participation of commercial insurers and therefore broaden supply, while ensuring transparency in microinsurance business and improving consumer protection. However, stakeholders also recognised the need to foster financial education in parallel to the regulatory changes, which led to the development of the *Roadmap to Financial Literacy on Microinsurance* (2011) and subsequent joint activities. In addition, given the growing market, consumer protection became an increasingly prominent issue, resulting in the adoption of the *Alternative Dispute Resolution Mechanism Framework for Microinsurance* (2012).

The drive for formalisation also prompted more interagency coordination. The Philippine Regulatory Framework for Microinsurance (2010) is a strategy that cuts across the jurisdictions of the IC, the BSP, the CDA, and its development and implementation was driven by the Department of Finance (DOF). As such, several of the corresponding regulations that followed were jointly issued and cut across the purview of these agencies.

The microinsurance strategies were put into effect via a subsequent series of regulatory and legal instruments[29]. Collectively, these comprehensively addressed the aspects of the microinsurance regulatory framework set out in the strategies and include the following:

- Microinsurance definition including rules on product characteristics and bundling.
- Capital requirements. Commercial insurers with at least 50% of their portfolio comprising microinsurance were allowed a 50% reduction in the total capital requirements for insurers in 2012 (DOF Order No. 15-2012). This sought to further incentivise participation of commercial insurers in the microinsurance market after it was observed that the issuance IMC No. 9-2006 led to little response from commercial insurers.
- Requirements for entities that can underwrite and sell microinsurance, such as licensing and training requirements. This includes a circular allowing rural banks to distribute microinsurance jointly issued with the BSP (BSP Circular 683-2010). The Joint Memorandum Circular (JMC) of IC, CDA and SEC (JMC 1-2010) sets out the approach to formalisation.
- Conduct of business requirements including simplicity of contract provisions and documentation requirements, use of microinsurance logo, premium collection and claims, dispute resolution of the IC (IMC 1-2010). Institutionalising microinsurance in the Insurance Code (Act 10607). In 2013 when the Insurance Code was amended a chapter on microinsurance was included[30]. This chapter included a revised definition of microinsurance with increased premium and coverage limits and institutionalised in the law the IC's authority to issue rules and regulations on microinsurance.

29 See Annex 2 for the list of the relevant circulars
30 http://www.gov.ph/2013/08/15/republic-act-no-10607/

→ Phase 3 (2015 onwards) – Refinements of proportionate regulatory framework and specific regulations to promote certain lines

The *Enhanced Microinsurance Regulatory Framework* was introduced in October 2015 as circular of the IC (CL 2015-54). The new circular addresses key gaps and barriers in the framework with respect to:

- **Intermediaries:** Roles, functions, responsibilities, and limitations of microinsurance agents, general agents, brokers, and distribution channels
- **Product features and product bundling:** Rules on product bundling to encourage innovation and design of tailor-made and demand-driven products
- **Reinsurance:** Guidelines for more robust risk transfer via coinsurance and reinsurance, especially in relation to large-scale events (also valid for the MI-MBAs)

Furthermore, the IC adopted a regulatory framework, *Microinsurance Distribution Channels Regulatory Framework* (CL 2016-64), to provide clarity surrounding the development, utilisation, and conduct of distribution channels. In terms of intermediaries, the new framework sets out requirements on four main aspects, which are:

- Acceptable distribution channels that may be contracted
- Permissible functions and activities of distribution channels
- Responsibilities and market conduct of distribution channels and other parties involved in distribution
- Consumer protection measures

The IC also adopted three sectoral regulations focusing on selected lines between 2015 and 2016. Firstly, the *Micro Pre-need Regulatory Framework* (CL 2015-51) provides guidelines for the provision of pension, education and memorial plan products by pre-need companies[31]. It is expected to "foster, enrich and aid the prudent and practicable provisions of Micro Pre-Need products" in the Philippines, thus empowering low-income people to secure their financial future". Secondly, the Agriculture Microinsurance Framework (CL 2015-53) was implemented to further boost "the provision of agriculture microinsurance products and services that are simple, affordable and accessible to the vast majority of the population dependent on agriculture". Finally, in April 2016, the IC implemented the Health Microinsurance Framework via issuance of a circular on 'Regulations for the Provision of Health Microinsurance (MicroHealth) Products and Services' (CL 2016-22) to complement the Government's National Health Insurance Program in providing "inclusive health insurance for the general population with focus on the low- income and the informal sectors".

31* Pre-need product providers (CL No. 2015-51) offer a dedicated savings mechanism designed for education, life or memorial and pension plans. They came under the jurisdiction of the IC in 2009 with the Pre-need Code (earlier they were regulated by the SEC). As of mid-2016, there are 15 certified companies. The Pre-need regulatory framework builds on the same legal definition as for microinsurance products. It aims at giving them a stronger role in serving the low-income segment, while ensuring consumer protection.

Key elements of the Philippine microinsurance regulations

Microinsurance regulations in the Philippines has evolved through a **host of legal or regulatory instruments and strategies.** A list and explanation of the relevant legal documents can be found in the Annex. There are **seven key elements** to this, each of which is unpacked below:

1. the microinsurance definition
2. prudential requirements for microinsurance providers
3. product-related rules
4. licensing, training and the role of intermediaries
5. alternative dispute resolution
6. an overarching approach for formalisation
7. adjustments to the supervisory tools and techniques

1 The Microinsurance Definition:

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The microinsurance definition is quantitative; however this is complemented by qualitative requirements on the product characteristics. The quantitative definition sets monetary limits to the premium and coverage amounts. The current applicable definition, which was put in place in July 2013, is a daily premium cap of PHP 35 or USD 0.71, and a maximum coverage of PHP 466,000 or approximately USD 9,400. This definition has been revised twice. First introduced in 2006, it was changed in 2010 to lower the premium cap and increase the maximum cover slightly. It was changed again with the new insurance law in July 2013, this time introducing a significantly higher maximum coverage of PHP 466,000 (see Table 3.2 below for comparison)[32.]

Table 3.2: Quantitative thresholds of a microinsurance policy over time

Regulation	Benchmark salary (PHP)[33]	Daily premium cap (% of benchmark salary)	Daily premium cap (PHP/USD)	Maximum coverage (Multiple of benchmark salary)[34]	Maximum coverage
IMC No. 9-2006	350	10%	35 / 0.71	500	175,000 / 3,532.07
IMC No. 1-2010	404	5%	20 / 0.40	500	202,000 / 4,077.02
Insurance Law 2013	**466**	**7.5%**	**35 / 0.71**	**1,000**	**466,000 / 9,405.40**

Source: IC Circulars, Insurance Law 2013

32 All foreign currency conversions in this study are based on https://www.oanda.com as at 6 January 2017 unless stated otherwise.
33 Daily minimum salary of a worker in Metro Manila.
34 http://www.nwpc.dole.gov.ph/pages/ncr/cmwr_table.html

2 Prudential requirements

Changes to prudential regulation for microinsurance comprised two main elements, which were the creation of a new tier of microinsurance providers, the MI-MBAs and a reduced minimum paid-up capital for commercial insurers and brokers with at least 50% of their business in microinsurance:

3.2 I CARD MBA – a champion and role model for MI-MBAs

In 1994, CARD, a prominent MFI, established a members' mutual fund for loan redemption in the case of death of member-borrowers. CARD also offered basic life insurance. This was followed by a pension scheme for members in 1997. An internal assessment revealed that the arising financial obligations to its members could decapitalise the institution, leading to the decision to formalise and seek an insurance license. In 1999, CARD started the licensing process. This culminated in the 2001 licensing of CARD as an insuring MBA, CARD MBA, under the traditional insurance mutuals regulation. CARD MBA was also instrumental in setting up Risk Management Solutions, Inc. (RIMANSI), a service provider technically supporting MI-MBAs e.g. by setting up a simple management information system.

CARD MBA provided life insurance to 112,174 members in 2004 (insuring approximately 600,000 persons, including dependants), and in 2013 CARD MBA had 1.8 million members. As at end-2014, CARD MBA accounted for over 60% of the number of insured in MI-MBA life business.

As of November 2016, CARD MBA had 50 branches and 3.2 million active members, insuring 12 million individuals.

Source: 'Making insurance markets work for the poor: microinsurance policy, regulation and supervision | Philippines Case Study' (Llanto, Geron and Almario, 2008) published by A2ii and Cenfri; and CARD MBA website (https://www.cardmba.com/)

- **The new tier of MI-MBAs was created in 2006.** Prior to both IMC No. 9-2006 and Phase 2 of implementation, many MFIs, including NGOs and cooperatives had self-insurance schemes that they were operating informally, i.e. without an insurance licence. The 2006 circular aimed to provide a path to formalisation by creating a MBA structure dedicated to microinsurance as a means of formal risk pooling. This was motivated by the precedent of the CARD MBA (see Box 3.2). This circular was issued under a chapter in the old Insurance Code (1978) that provided for the establishment of MBAs as common bond associations, with a lower compliance regime than that applicable to commercial insurers. The circular provides for minimum membership (5,000 persons) and a lower minimum capital requirement (PHP 5 million or USD 100,916, to be increased by 5% of premiums per annum until a target is reached) compared with the minimum capital for traditional mutuals benefit associations of PHP 12.5 million/USD 252,291. Since 2013, with the new insurance law, new mutuals require PHP 125 million and commercial insurers PHP 550 million/USD 11.1 million)[35]. The circular IMC No. 11-2006 also set out the RBC Framework specifically for MI-MBAs. For MI-MBAs, there were also lighter corporate governance requirements[36].

- **Commercial insurers with at least 50% of their portfolio comprising microinsurance were allowed a reduced capital requirement in 2012.** Commercial insurers had been allowed to offer microinsurance since the issuance IMC No. 9-2006, but there was little participation as many perceived the circular to be valid for MI-MBAs only. The 2010 *Regulatory Framework for Microinsurance* reiterated and encouraged commercial insurers, under their active license, to sell microinsurance. It announced a 50% reduction in the total capital requirements for insurers with 50% or more of their portfolio in microinsurance.

35 The changes provide that the total of the paid-up capital, retained earnings, unimpaired surplus and revalued assets must meet the following minimum levels: from 30 June 2016 – PHP 550 million (USD 11.1 million); from 30 June 2019 – PHP 900 million (USD 18.2 million); and from 30 June 2022 – PHP 1.3 billion (USD 26.2 million). From: Global Corporate Insurance and Regulatory Bulletin 2013 (Mayer, Brown). All foreign currency conversions in this study are based on https://www.oanda.com as at 6 January 2017 unless stated otherwise.

36 See Llanto, Geron and Almario, 2008

3 Product-related rules

The product-related rules aim to ensure that the **needs of the target market** are met when offering MI products (see Table 3.3 below). They define rules for

- the policy contract
- the use of a standard microinsurance logo on documents and by agents
- bundling between life and non-life lines
- documents required to be submitted for a claim
- a claims settlement timeline
- KYC requirements

Table 3.3: Product parameters for traditional products and microinsurance products

Provisions for individual/ group insurance plans	Traditional Products	Microinsurance Products
Maximum premium/benefit	No limitation	0.71 USD daily / 9,405.40 USD benefit
Policy contract	No requirements	Simple and easy to understand
Premium collection	Monthly quarterly, semi-annual, annual	Also daily and weekly
Grace period	31 days from premium due date	45 days from due date
Contestability period	Maximum 2 years	Maximum 1 year
Suicide clause	Maximum 2 years	Maximum 1 year
Claims settlement	Within 60 days	*Within 10 days*[1]

[1] The timeline for claims settlement was not mandatory (unlike in Peru), it is a voluntary industry standard.
Source: Adapted from Asian Development Bank, 2013

Prototype microinsurance policy contracts were developed for life products (group life, term life and life contract with cash value) and non-life products (basic perils to life, properties and livelihood). The IC and the two insurance associations for life and non-life, Philippine Insurance and Reinsurers Association (PIRA) and Philippine Life Insurance Association (PLIA), jointly developed these prototypes through a Technical Working Group (TWG) (See Box 3.3 on page 44). The prototype policy contract was one page long, written in the national language Tagalog and simple English and contained only required key information about the product and the insurer. Similar to all other microinsurance products approved by the IC under the IMC No. 9-2006, it was required to prominently display the microinsurance logo on the face of the policy contract. This was to enable clients to immediately recognise that they were buying a microinsurance product.

The microinsurance logo was an important component that was adopted as a means of signalling that the products that meet the requirements of microinsurance. The logo is required to be displayed on policy documentation and at agency premises. The Philippines also promoted the logo through songs, videos, advertisements and financial literacy roadshows.

The KYC and consumer due diligence (CDD) requirements were simplified for microinsurance under the CL No. 15-2007. The circular allowed for simpler information requirements or flexibility in identity verification procedures, with specific consideration for various distribution models such as group policies or telemarketing.

4 Licensing, training and the role of intermediaries

The regulatory expansion created new types of microinsurance-only intermediaries. IMC No. 1-2010 created the individual microinsurance agent, the institutional microinsurance agent (called a regular agent or a general agent) and the microinsurance broker[37]. Complementary to this, and similar to the rule for commercial insurers, DOF Order 2012 also lowered microinsurance brokers' capitalisation requirement to 50%. While the IC does not actively supervise intermediaries, the IC has reserved the right to also supervise microinsurance agents. Several other circulars further defined the role and requirements applicable to microinsurance agents and brokers:

- **Sale of microinsurance products:** CL No. 29-2010 stipulates that commercial and cooperative insurers need to ensure that only licensed intermediaries, i.e. agents and brokers, sell insurance or microinsurance policies. In the case of MBAs, MBA insurance products must be issued only to members. Retail outlets are allowed to sell microinsurance as group policyholders.
- **Reduced training requirement for microinsurance agents**: CL No. 6-2011 outlines the procedures of training and licensing of microinsurance agents. It reduces the training requirements for microinsurance agents compared to the traditional agent, who is required to pass 40 hours of training. Training requirements for microinsurance agents includes a 3-day course (24 hours) provided by competent speakers, passing a test covering basic concepts and the submission of a list to the IC by the president of the insurance company and trainer listing who has been trained.
- **Conduct of microinsurance agents:** CL No. 6-2011 also sets the requirement that MFIs, including banks providing microfinance services, shall reflect in their articles of incorporation the purpose to act as microinsurance agent. It also requires that an MFI acting as a licensed microinsurance agent has to put the signage visible in its premises.
- **Rural Banks as intermediaries:** To facilitate the formalisation of Rural Banks as intermediaries, a path to agent licensure was developed that involved the IC, BSP and SEC. BSP Circular No. 683 - Marketing, Sale and Servicing of Microinsurance Products (2010) - sets out guidelines for banks that want to sell MI as agents and differentiates banking functions from insurance activities. In addition, BSP Memorandum No. M-2011-015 issues a reminder that only licensed banks can intermediate microinsurance products. The above circular on agent conduct is also valid for banks.

37 The Philippines' traditional insurance market has three main types of intermediaries. Brokers represent the interest of the client. Regular agents can be individuals or legal entities and represent one commercial insurer. General agents are entities and can represent one life and up to seven non-life commercial insurers.

5 Alternative Dispute Resolution

The ADReM) for microinsurance was introduced in July 2013 via a strategy and the circulars CL No. 15-2013 to 18-2013. It set out guidelines for mediators and implementation guidelines for insurers and MI-MBAs. The ADReM was discussed and developed in a dedicated TWG[38] since 2012. The ADReM circulars set out the qualifications of mediators-conciliators and their training, responsibilities and code of conduct. They also describe the principles and procedures of claims-related dispute resolution mechanisms, namely that these should be low-cost, accessible, practical, effective and timely. The circulars emphasise consumer protection as well as the protection of the insurance industry against illegitimate claims. To initiate the implementation of the circulars, the IC completed public seminars in seven key cities across the country in the first quarter of 2014 to inform stakeholders on the implementation of the ADReM.

6 Formalisation

The provision of formalisation pathways for MFIs was core to the original impetus for the microinsurance strategies and regulatory frameworks. By providing an institutional option for hitherto informal microinsurance provision among MFIs, the creation of the MI-MBA framework in 2006 was the first formalisation attempt. Formalisation was then more fully addressed in the 2010 *Regulatory Framework for Microinsurance*, which envisioned the "mainstreaming of existing informal insurance, insurance-like, and other similar activities/schemes".

The main instrument for formalisation is the JMC of IC-CDA-SEC, JMC No. 1-2010 - Defining Government's Policy on Informal Insurance Activities, issued in 2010. It provides that premiums are collected and benefits guaranteed, and the circular set transition times of 1- 2 years to formalise business and calls for the involved authorities to collaborate. As a result, an informal provider could choose from five formalisation options in microinsurance, some of which already existed:

- enter a partnership with formal insurers in the form of a group policy
- become an agent, or a microinsurance agent
- become a broker, or dedicated microinsurance broker with a lower capital requirement
- become a MI-MBA
- become a licensed commercial insurer or an insurance cooperative

38 See Box 3.2 for more information on TWGs

The cooperation between the IC, BSP, CDA and SEC was particularly key to formalising Rural Banks as intermediaries and overall, push the formalisation frontier further. Prior to 2010, Rural Banks were not allowed by the BSP to sell insurance products within the bank premises or to get a license to sell insurance from the IC. The only option was to purchase group insurance policy cover for their clients. However, the introduction of the microinsurance agent license enabled the formalised sale of microinsurance products within Rural Bank premises. Rural banks can now also obtain group insurance and/or sell directly to their individual client. The BSP issued circulars to provide additional clarity, such as the BSP Circular No. 683 (2010), which differentiates banking from insurance activities, and the BSP Memorandum No. M-2011-015 which reiterates that only licensed banks can intermediate microinsurance products. In 2015, a new Task Force under the leadership of the Department of Finance's National Credit Council (DOF-NCC) and the IC was created to evaluate the progress of the formalisation effort and push the formalisation of any remaining informal insurance activity.

7 Adjustments to the supervisory tools and techniques

Adjustments to supervisory procedures in order to accommodate the microinsurance regulations were critical to enable successful implementation. These adjustments comprised various elements:

- Differentiated product approval for standard products
- A new system for offsite supervision via a dedicated performance monitoring system for microinsurance (SEGURO)
- Adjustments in onsite supervision by the IC and the BSP
- Adjusted fee structure for MI-MBAs and microinsurance business
- The IC's Internal staff capacity, which includes staff training and creating a separate MI division

The IC currently approves life, non-life and bundled products, including microinsurance, prior to marketing. Approvals are implemented by two different divisions, depending on the type of insurer: Life products are approved by the Actuarial Division and Life Division; and Non-life products are dealt with in the Actuarial and Non-Life Division. Standard microinsurance products are approved within five days[39].

The IC also made enhancements to offsite and onsite supervision. For offsite supervision, the SEGURO[40] Performance Standards (CL No. 5-2011) were developed as a framework for financial reporting. The basis for this work was the KPI framework of the MIN, which were adjusted for local purposes[41]. The reporting formats integrated into the annual reporting of insurers, were developed in a participatory process by the respective TWG. The standards include an Excel template that sets out specific performance indicator ratios to be tracked and specifies how they are to be calculated, with weights assigned to each and the aggregate scor-

39 Portula and Vergara, 2013

40 SEGURO means Solvency and Stability; Efficiency; Governance; Understanding of the product by the client; Risk Based Capital, and Outreach as defined by Annex 1 of the IC CL No. 5-2011 on Performance Standards for Microinsurance. Notably, the IC was the first ever insurance supervisor globally who introduced performance standards for microinsurance providers. To establish the system, the IC received technical assistance from the FIRST Initiative (at the WB).

41 http://www.microinsurancenetwork.org/sites/default/files/KPI_MI_Handbook_v2_EN_0.pdf

ing derived from it. The reporting system of all insurers was adjusted to ensure that microinsurance is separately reported and based on the agreed standards. Onsite supervision was also enhanced. As at 2014, the IC had been improving its overall onsite supervision system under its new administrative structure; among others, frequency of supervisory visits was increased.

Supervisory fees were reduced for microinsurance. In 2014, the fee structure of all insurance providers was adjusted (CL 2014-15). This included reduced fees for certain aspects of microinsurance business and the MI-MBAs such as the annual supervision fee, fee for the approval of investment management agreements, fee for product revisions and filing fees for annual statements.

The IC also built up staff capacity over time via on-the-job exposure, and by creating a dedicated microinsurance division and providing training. The priority the IC accorded to microinsurance has considerably increased over time. In the early years, before a dedicated division for microinsurance was created, existing staff were primarily trained via the support of the former Deputy Commissioner of the IC, learning by doing, hands-on support from the two donor projects, working sessions of the various TWGs, and some exposure at international microinsurance conferences and national MI events. Eventually, in 2011, the IC set up an interdisciplinary "MI Technical Committee" to deal with microinsurance, comprised of staff from nine different IC offices or divisions[42]. In 2014, when the IC was restructured, one of the four new Deputy Commissioners was put in charge of microinsurance and has since been a focal point for microinsurance, both within the IC and with the industry. The IC also created a new, dedicated Microinsurance Division staffed with up to eight people who oversee the entire process from pre-licensing to winding-up.

42 The IC Divisions as of 2014 before restructuring were: (1) Office of the deputy commissioner; (2) Actuarial; (3) Field examination-life; (4) Field examination-non-life; (5) Statistics and research; (6) Regulation, conservation and liquidation; (7) Rating; (8) Public assistance and information; (9) Pre-need.

3.3 | What were the defining features of the Philippines' implementation process?[43]

The content of regulations is not the sole factor that shapes its impact. How a policy or regulatory framework is designed and implemented could help or impede its effectiveness. The Philippines is an ideal case study in this respect as they were thorough and long-term in their approach. They took far-reaching complementary measures alongside the microinsurance strategies and regulatory frameworks. The framework evolved from a single circular in 2006 to a comprehensive framework with clear objectives. After 10 years, the reform process is still ongoing; the Philippines has since issued further comprehensive regulatory adjustments and sub-sectoral regulations for pre-need, agricultural and health products. This was also done in tandem with international standards: those involved in the framework continuously drew on and contributed to IAIS Issues and Application Papers on inclusive insurance and international dialogue events such as the Annual Microinsurance Conference of the Munich Re Foundation and the MIN. The following elements characterise the process followed in the Philippines:

- **Strong political support.** The support of the DOF-NCC as drivers of the overarching policy for microfinance and financial inclusion was indispensable. The DOF-NCC provided political support, coordination and technical assistance to the IC. It also made available considerable fiscal resources that were necessary to complement the engagement of international development partners. Additional impetus emanated from the strong public commitment by the IC and its top leadership, amongst others by initiating a national microinsurance month (January) and ensuring a high media profile for microinsurance.

- **Coordination between different government agencies.** The typical microinsurance value chain in the Philippines involves entities under the primary authority of multiple regulatory authorities. The IC supervises insurance, the BSP is the authority for the financial sector including Rural Banks, the CDA regulates cooperatives and the SEC regulated pre-need companies (jurisdiction passed on to the IC in 2010). Under the auspices of the DOF-NCC, the IC collaborated with these authorities from conception to implementation, including contributions to strategies, regulations and TWGs.

- **Consultative and collaborative process with the private sector.** The development of the microinsurance strategies and regulatory frameworks was led by the IC and NCC, but over all these years relied significantly on industry contributions and the technical expertise provided to the TWGs. TWGs are working groups comprising public and private stakeholders set up to design and implement specific aspects of the microinsurance strategies and regulations. The industry associations PIRA and PLIA also set up committees to regularly discuss issues and plans around microinsurance. These groups are represented on the TWGs, and played a key role in the implementation of the financial literacy advocacy work. The Rural Bankers Association (RBAP)[44] actively pushed for the formalisation of Rural Banks as microinsurance agents and contributed to the process by regularly training Rural Bank staff, as well as creating a one-stop centre to assist Rural Banks in the registration process. RIMANSI, the organisation supporting the MI-MBAs also played an important role in these settings.

43 RFPI 2015
44 RBAP is a national network of Rural Banks and has approximately 600 Rural Bank members (see http://rbap.org)

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Microinsurance TWGs in the Philippines

TWGs are working groups comprising public and private stakeholders whose roles are to design and implement specific aspects of the microinsurance strategies and regulations. The TWGs are used as a platform for the supervisor and industry to jointly develop regulations or carry out mutual learning and dialogue. A TWG usually has a designated theme and is called upon to resolve a myriad of issues, from strategy, in-depth technical work such as product standardisation, to reporting formats.

Before a TWG is set up, a TWG organisational meeting chaired by DOF-NCC is called to agree on its tasks, deliverables, number and schedule of meetings (usually once a month). TWG meetings have been organized by the two development partners supporting microinsurance i.e. the Asian Development Bank and its Japan Fund for Poverty Reduction and Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) with its "Microinsurance Innovations Project for Social Security (MIPSS)", later followed by the "GIZ Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia)" project.

TWGs are also accountable for predetermined deliverables and follow procedures to ensure proper stakeholder consultation and implementation take place. For instance, strategy papers are submitted to the insurance associations to solicit comments. The TWG may also simultaneously conduct consultations in selected cities to solicit comments from intermediaries and other stakeholders nationwide.

Apart from being the vehicle for developing the contents of regulation, the numerous topical TWGs formed created a continued process of joint learning for the industry and supervisor. TWG participation became an intensive and effective way for IC staff training. IC staff have reported positive learning and sharing experiences.

A multi-authority, multi-stakeholder and multimedia approach to financial literacy. *The Road Map to Financial Literacy* "envisions adequate risk protection for the low-income sector through a strong insurance culture among the Filipinos" and "to achieve this, key stakeholders shall build their capacities, increase their knowledge and improve their skills to become proactive in the provision and promotion of microinsurance". The idea was that all stakeholders had a role to play. The Road Map names nine stakeholder groups:

- Public sector: Legislators, regulators, national agencies; and local government units (LGUs)
- Private sector: Insurers, intermediaries and support institutions
- Clients: Current and potential

On the consumer's end, financial literacy was the first line of defence for clients. For example, consumer protection via formalisation and a microinsurance logo only work if clients understand what the difference between licensed and non-licensed entities means for their rights. Financial literacy could also encourage private sector supply of microinsurance via stronger demand. The private sector was expected to contribute to financial literacy via implementation support such as creating materials or organising initiatives. Starting in 2011, financial literacy initiatives involved cross-stakeholder advocates in all 16 regions. The approach relied on various types of media – free training materials, regional road shows, advocacy messages by the commissioner and DOF/NCC, a microinsurance month (January), promotion of the microinsurance logo and the use of radio slots and newspaper columns. The Roadmap also provides messages to be communicated by each stakeholder groups.

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Provision of technical support to microinsurance providers. RIMANSI was set up as a dedicated service provider for MI-MBAs, working to help MBAs rationalise and legitimise their current activity. They advise MBAs on pricing, solvency, governance, risk, and administration and helped develop performance standards for MBAs, which are close to completion of the licensing process. They have been integral to the expansion of their member MI-MBAs over the course of the roll-out of the various elements of the microinsurance regulatory framework. RIMANSI was set up with the support of CARD MBA.

Long-term funding commitments from development agencies. Finally, several development agencies have continually supported the Philippines' throughout the reform process, lending diverse perspectives and expediting implementation. Two particular agencies have been key drivers since 2008: The GIZ financed by the Federal Ministry for Economic Cooperation and Development, Germany (BMZ) and the Asian Development Bank (ADB), financed by the Japanese Fund for Poverty Reduction. Table 3.4 provides an overview of development agency engagement in the Philippines to date.

Table 3.4: Support of Development Agencies to Microinsurance Market Development

Agency and programmes	Key areas of support	Dates
GIZ (financed by the BMZ) MIPSS and RFPI (the latter a regional initiative which includes other countries)	Regulation and support to the IC and DOF-NCC, TWGs, standard products, financial literacy, regional exchanges	2008 – today
Asian Development Bank financed by the Japanese Fund for Poverty Reduction (JFPR)	Regulation and support to the IC and DOF-NCC, TWGs, financial literacy	
First Initiative of the World Bank (WB)	Performance Monitoring System SEGURO	2010 – 2012
United States Agency for International Development (USAID)-funded Microenterprise Access to Banking Services (MABS 4) project[45], and a project of the International Labour Organization's (ILO's) Microinsurance Innovation Facility	Support to the Rural Banking Association on agent licensing and training, overall support to BSP and IC	2008 – 2013
ILO's Microinsurance Innovation Facility	RBAP agent training for Rural Banks	n.d.
Canadian Cooperative Agency	RIMANSI for institution building and technical support for MI-MBAs	n.d.

45 See 'EVALUATION: Final Performance Evaluation USAID/Philippines' Microenterprise Access to Banking Services Program-4' (USAID, 2013)

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3.3 Outcome: What has changed?

The central research question of this study is whether the regulatory framework achieved the policy goal set in the various strategies, namely

- broad-based access to microinsurance;
- provided by the private sector; while
- protecting the insured.

This section analyses **five quantitative indicators** to consider whether the policy intentions above have been met. The following are the chosen indicators:

1. **Access:** the number of insured persons or certificates
2. **Insurers:** the number and diversity of insurers engaged and premium volumes generated
3. **Products:** microinsurance products registered and product diversity
4. **Intermediaries:** the number and diversity of intermediaries used
5. **Client Value:** claims/loss ratios[46]

31
million
clients reached

Indicator 1 → Access – 31 million clients reached by 2014

As at end-2014, the formal microinsurance sector had reached a total of 31 million coverages, out of which 13.61 million and 17.48 million are covered by MI-MBAs and commercial and cooperative insurers respectively (see Table 3.5 below).

Table 3.5: Number of insured by MI-MBAs, commercial and cooperative insurers

	2008*	2012	2013	2014
MI-MBAs				
Number of Members of MI-MBAs	600,000*	2,526,423	2,782,116	3,135,515
Total Insured Members (including dependants)	3,100,000*	7,579,269	12,629,626	13,618,258
Commercial and cooperative insurers				
Life	No data (n.d.)	4,226,460	4,700,434	7,584,573
Non-life	n.d.	8,077,464	7,879,672	9,896,681
Total Insured Clients	n.d.	12,303,924	12,580,106	17,481,254
Grand total	**n.d.**	**19,883,193**	**25,209,732**	**31,099,512**

Source: IC data; and 2008 data in "Sector Assessment: Development and Strategic Issues, estimated data (ADB 2013, page 15)"*

46 Proportion of total premiums paid back to clients in claims

Highlights

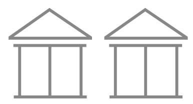
- The membership size of MI-MBAs grew fivefold, while the total number of insured MI-MBA members covered increased by 4.4 times in the six years between 2008 and 2014 based on year-end data.
- Those covered by commercial and cooperative insurers observed similarly strong growth particularly in life insurance, where the number of covers grew 1.6 times in just one year between 2013 and 2014.
- The total reach of microinsurance via formalised insurers grew 25% per year on average from 19.88 million to 31.10 million covers between 2012 and 2014. This significant growth is reflected across all three insurer types.

Indicator 2 →
Insurers in Microinsurance – 63 out of 138 of insurers engaged in microinsurance

Almost half or 63 out of 138 insurers in the market offer microinsurance. These comprise three types: MI-MBAs, commercial insurers and cooperative insurers. In terms of the MBAs, 21 out of 34 MBAs are fully dedicated to microinsurance and hence are licensed MI-MBAs, and 42 of 104 commercial and cooperative insurers run a microinsurance business line as separate to their traditional business (see Table 3.6). Further investigation of individual company data however showed that some are significantly engaged in microinsurance whereas others have only started.

The number of commercial insurers who offer microinsurance increased over threefold in 3 years, from 12 in 2012 to 42 in 2014. However, as indicated in Table 3.6, the volume they underwrite has not increased proportionately to the number of commercial microinsurers.

The MI-MBAs dominate more than half of the life insurance business. Many MFIs opted to establish MI-MBAs, and have since leveraged the close relationship between them and their clients to become formal providers. As of end 2014, MI-MBAs held 60% of premium collected in the life microinsurance business (as they only write life); namely PHP 2,147 million (USD 43.3 million) of the total of PHP 3,564 million (USD 71.9 million) collected. CARD MBA plays a particularly prominent role. In 2013, it had 1,850,615[47] members. This represented 66% of all MI-MBA members at the time. Notably, CARD MBA continued to grow: At end-2016, CARD MBA had 3,291,991 members, insuring 12 million individuals[48].



63 out of 138
of insurers engaged in microinsurance

47 Source: CARD MBA, 2014
48 https://www.cardmba.com/

Table 3.6: Insurers by type offering microinsurance, and their growth between 2012 and 2014

Type of insurer	2012	2013	2014
Total number of commercial insurers including cooperative insurers	110	108	**104**
Total number of commercial insurers including cooperative insurers offering microinsurance	12	31	**42**
Microinsurance premium collected, life (PHP mn)	1,119	1,285	**1,417**
Microinsurance premium collected, non-life (PHP mn)	228	236	**245**
Total number of MBAs	28	28	**34**
Out of which are MI-MBAs	18	21	**21**
MI-MBAs Microinsurance premium collected, life (PHP mn)	1,663	1,954	**2,147**
Grand total premium collected all insurers and lines	3,010	3,475	**3,809**

Source: IC data

About half of reporting insurers reported growing business volumes. Of the total 63 insurers, 41 reported based on the SEGURO standards on microinsurance business in 2013 and 2014. Of the 41, about half (19) reported growing business volumes. 18 reported a decline in business, while the remaining four were either new or had discontinued their microinsurance business (see Table 3.7).

Table 3.7: Insurers (all three types) reporting on SEGURO standards and report results

Type of insurer	No. that reported	Growth reported by insurers between 2014 and 2013
Life	9	7 reported growth between 12%-90%. 2 reported decline between 13%-85%.
Non-life	13	4 reported growth between 18%-271%. 5 reported decline between 49%-83% 3 are new entrants in 2014 1 stopped MI business
MI-MBA	19	8 reported growth between 14%-52%. 11 reported decline between 2%-98%.
Total number of insurers reporting	**41**	**Growth: 19** **Decline: 18** **New or stopped: 4**

Source: IC data, in the Regulatory Impact Assessment Microinsurance Philippines (GIZ RFPI, 2015)

Highlights

- At end-2014, close to half (63 of 138) of all insurers have ventured into microinsurance; however the level of engagement varies between insurers.
- A majority of the market share is held by the 21 MI-MBAs: MI-MBAs, while smaller in number, write the majority of life microinsurance premiums.
- However, business performance seems uneven across all three types:
  - Across all types of insurers offering microinsurance, those who experienced growth reported growth rates ranging from 12% to 271%, while those who experienced decline reported rates ranging from 13% to 98%.
  - Among the MI-MBAs, 11 out of 19 reporting MI-MBAs do not report any growth.
  - Commercial and cooperative microinsurers are equally uneven, with only a few substantially engaging in microinsurance. None of the commercial microinsurers' microinsurance business comprise 50% or more of their insurance business and hence none took up the prudential concession of lower capital requirements.
  - CARD MBA held 60% of all life microinsurance written by the MI-MBAs in 2014 (Box 3.1).

Indicator 3 →
Products – Substantial growth in the number of products registered

The number of registered microinsurance products has grown rapidly since 2006, as indicated in Table 3.8. Overall, there were 162 microinsurance products at end-2014 compared to just eight life and two non-life products in 2006. Between 2006 and 2009, the number of microinsurance products rose from 10 to 18 products. This contrasts sharply with the growth from 18 to 88 products between 2009 and 2012. Non-life products experienced markedly stronger growth than life in 2012 and 2014; the doubling in number of products between 2012 and 2014 were driven largely by non-life products. At end 2014, the total number had increased to 81 life and 81 non-life products.

Table 3.8: Registered microinsurance products

Product types	2006[49]	2009	2012	2013	2014
Life (mostly credit life)	8	16	59	75	81
Non-life	2	2	29	52	81
Total	**10**	**18**	**88**	**127**	**162**

Source: IC data (2014)

There is no data on how many products are actively marketed or have actual take-up. A rapid assessment in February 2014 revealed that of the 127 products registered at end-2013, 12 had no sales.

49 In the early years of microinsurance the IC did not yet maintain a separate register for microinsurance products as microinsurance was not given a regulatory definition until 2006. As such the data here only includes life products the MI-MBAs had registered as microinsurance pursuant to the 2006 circular. It should be noted however that at this point, some commercial and cooperative insurers were marketing products that would be similar to microinsurance in practice.

The microinsurance products comprise mostly of group policies. The small number of policies in microinsurance compared to the large number of insured lives or certificates of cover shows that a substantial percentage of microinsurance policies are group-based. The average number of group members is 1,066 and 330 for life and non-life, respectively (see Table 3.9).

Table 3.9: Policies versus insured

	2012	2013	2014	Average group size
Life microinsurance				
Number of policies	1,256	1,777	7,117	1,066
Insured lives	4,226,460	4,700,434	7,584,573	
Non-life microinsurance				
Number of polices	35,841	16,523	29,981	330
Certificates of Cover	8,077,464	7,879,672	9,896,681	

Source: IC data (2014)

MI-MBAs rely almost exclusively on compulsory life insurance, but have started to venture into non-life products. All MI-MBA members are required to contribute to the following compulsory products: i) life insurance; ii) a pension product by way of a retirement savings fund; and, for members who are borrowers, iii) a loan redemption fund. Additionally, under the regulatory framework, MI-MBAs can only offer life products. In the quest to grow and diversify, some have started to partner with commercial insurers for non-life products via group insurance. The joint venture of CARD MBA with a commercial insurer is a notable pilot here. This puts CARD MBA into a unique position both as intermediary and insurer.

Many of the products launched since 2010 are based on the prototype policy contracts developed jointly by the industry and the IC. A standard product, Buhay Bahay Kabuhayan (BBK), was developed by a TWG. Aimed at the non-life market, it is a multi-risk product and covers life, residential property and livelihood risks. As of December 2014, it had been taken up by 11 non-life insurers. The standard product was initially used by several insurers but some later created their own brand.

There have been some nascent signs of product innovation. MI-MBAs have expanded their group credit life product to also cover family members and retirement provision. There are also emerging voluntary plans, such as natural disaster cover. Such product innovation and diversification is expected to continue over the longer term as private sector participation increases and the financial sustainability of formalised microinsurance industry improves.

Highlights

- There was a fourfold increase in the number of microinsurance products registered after the launch of the 2010 regulatory framework.
- The majority of products are group and compulsory life insurance policies. However, the efforts of the IC have helped support product development, as can be seen from the observation that many products launched since 2010 are based on the prototype policy contracts. Product diversification and innovation however are generally still nascent.
- There is insufficient data on products that actually show sales and product usage, such as renewal rates).

Indicator 4 →

Intermediaries – The number of intermediaries increased by 8 times

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The number of microinsurance intermediaries has increased by 8 times since 2011. In 2011, there were only 22 microinsurance agents, all of whom were individuals. At the end of 2014, 170 licensed microinsurance agents were actively selling microinsurance. Among those, 122 were individual microinsurance agents and 48 were Rural Banks (institutional agents) (see Table 3.10).

Of 566 Rural Banks, 161 were in the process of becoming microinsurance agents in 2014. Of this number, 48 were actively selling, 13 were registered but are not yet actively selling, and 100 in the process of being licensed. Most Rural Banks have opted to partner with commercial microinsurance providers by buying group microinsurance policy coverage for their clients instead of obtaining an agent license.

Table 3.10: Agent types and their development

	2006	2011	2012	2013	2014
MI-Inter-mediaries	No MI agent category[50]	1 MI broker	1 MI broker	1 MI broker	1 MI broker
		22 individuals	125 MI agents - 26 Rural Banks - 99 individuals	105 MI agents - 39 Rural Banks[51] - 66 individuals	170 MI agents - 48 Rural Banks - 122 individuals

The regulatory framework also made provision for retail outlets to sell microinsurance as group policyholders. The most prominent example is a pawn shop chain. Its management reports that they sell approximately 1.5 million policies each month through their network of approximately 2,000 branches across the Philippines. They have been expanding the business and continued partnering with several insurers in the course of the years[52].

Highlights

The number of microinsurance intermediaries has increased significantly since the microinsurance framework was rolled out in 2010. However, further scrutiny revealed some potential issues:

- The variety of agent categories was lower than expected as many financial series providers partner with commercial insurers by buying group policies to cover their clients.
- Despite the issuance of the BSP circular enabling Rural Banks to become microinsurance intermediaries, not all rural banks were interested to become an institutional agent. Many continue to rely on other strategies such as group policies. Not many new types of organisations have entered the microinsurance intermediation sphere. Not many took up the option to use retail outlets as microinsurance intermediaries.

50 Prior to the regulatory framework, many MFIs were acting as group policyholders for a commercial insurer. In 2007, Cocolife had 300,000 insured via group policies.

51 http://rbap.org/

52 https://www.cebuanalhuillier.com/insurance/

Indicator 5 →
Claims ratio – Data in early stages of collection

The SEGURO indicators show that, between 2012 and 2014, the total average claims ratio increased from 32.4% to 44.2% (Table 3.11). This however conceals significant volatility in the individual figures. In relation to the life business, the claims ratio experienced a sharp decrease in 2013, followed by an equally sharp increase in 2014. In the non-life business, the claims ratio increase sharply both years, notably by fivefold between 2013 and 2014 due to the Haiyan storm.

Claims ratios vary between the types of risk carrier, and also between overall insurance and microinsurance. MI-MBAs, the predominant provider of life microinsurance, experienced a much lower claims ratio for life business in 2012 and 2014 compared to commercial insurers. Interestingly, non-life microinsurance claim ratios are considerably lower than overall insurance business ratios. This differentiation is less pronounced in the life sector.

Table 3.11: Claims ratios between 2012 and 2014

	2012	2013	2014
Commercial insurers (Life)			
Microinsurance - premium income	1,119.50	1,285.50	1,417.62
Claims payable	506	272.9	711.15
Claims ratio Microinsurance	45.2%	**21.2%**	50.2%
For comparison - total insurance business claims ratio[1]	41.6%	32.0%	28.2%
Commercial insurers (Non-life)			
Net premiums	228	236	245
Claims incurred	42	78	384
Claims ratio Microinsurance	18.3%	33.1%	156.4%[2]
For comparison - total insurance business claims ratios[1]	40.2%	48.8%	501.9%[2]
MI-MBAs (Life)			
Premiums (in million PHP)	1,663	1,954	2,147
Losses Paid (in million PHP)	428	471	589
Loss ratio Microinsurance	25.7%	24.1%	27.5%
Total weighted average of claims ratios	**32.4%**	**23.6%**	**44.2%**

Source: IC data. All in PHP million unless denoted otherwise. The terms "claims ratio" and "loss ratio" are used for commercial insurers and MI-MBAs, respectively, but are equivalent. 1 Insurance business including microinsurance 2 Year of the Haiyan storm

Highlights

Average claims ratio increased between 2012 and 2014. While a higher or increasing claims ratio number may seem to indicate higher client value, as a whole, the interpretation of aggregate claims ratios is difficult. There are a few reasons to this. First is the significant variability in risk profiles between product lines. Secondly, data availability and reliability were limited, and covered a particularly volatile period due to the Haiyan storm. The impact of such a major external factor would thus have significantly distorted any reflection of client value.

3.4 Impact assessment: What was achieved?

The assessment of whether the regulatory changes achieved the policy objectives will be guided by these three key questions:

1. **Did the regulatory framework and strategies ensure broad-based access?**
2. **Is the private sector providing such access?**
3. **Is there adequate consumer protection?**

The following conclusions are derived from analysing what was intended against what was ultimately achieved in practice. The scope of this assessment extends only up to year 2015. The IC has since continued to refine its approach by developing sub-sectoral microinsurance regulatory frameworks to better meet the need for health, agriculture and pre-need products.

1 Did the framework lead to broad-based access?

Assessment	Rationale and Indicators
Increased take-up of microinsurance	As at end-2014, there are more than 31 million active microinsurance covers, indicating a microinsurance coverage ratio of 30% (102 million population). While a substantial proportion of these covers could have originated from the formalisation of pre-existing informal business, it is signifies a drastic increase from 2007, where it was estimated that total microinsurance clients in both formal and informal markets totalled 2.9 million[53].
Increased potential outreach	Formalising the role of MI-MBAs and Rural Banks as intermediaries enabled access to microinsurance for the members and clients of these organisations, which make up a large number of people. The number of members of MI-MBAs grew from 600,000 to over 3 million between 2008 and 2014. Rural Banks have 6 million clients nationwide.
More accessible and meaningful products	The number of microinsurance products registered increased at least four-fold after the launch of the 2010 regulatory framework. These products are subject to requirements specifying product features that respond to the needs of the low-income segment; such as simplicity, affordability and minimal exclusions. The IC's effort to drive development of product prototypes has also helped to generate the design of standalone products by demonstrating to the industry how microinsurance is envisaged to be. Many products launched since 2010 are based on the prototype policy contracts.

53 see Llanto, Geron and Almario, 2008

2 Did the framework lead to more engagement of the private sector?

Assessment	Rationale and Indicators
Increased diversity, number and activity of insurers offering microinsurance	Prior to 2006, microinsurance was dominated by MFIs. Post-implementation of the framework, microinsurers today comprise commercial and cooperative insurers and MI-MBAs competing for market share. In total, close to half of commercial insurers are engaged to some extent in microinsurance. The number of products on the market has also grown significantly, partly due to the development of prototype products.
Increasing diversity in partnerships and distribution models	Under the regulatory framework, MFIs in the form of Rural Banks, cooperatives and NGOs, have become agents serving millions of borrowers with insurance. There are also a number of these and other organisations that partner with commercial insurance providers through group policy coverage arrangements. For example, as MI-MBAs can only offer life products, they have started to partner with commercial insurers for non-life products in the quest to grow and diversify.

3 Is consumer protection effective under the framework?

Assessment	Rationale and Indicators
Strengthened business conduct in formalised microinsurance	Given the high magnitude of formalisation, many microinsurance clients from previously informal cover have benefitted from the regulations on conduct of business (disclosure, policy contract, logo, intermediaries, KYC, claims timeline, ADReM etc.) improved the level of consumer protection. In 2015, the authorities have started another effort to formalisation emphasising that there are still informal providers in the market that require to be included in a formal setting.
Wider scope of consumer protection oversight	Interagency collaboration in formalisation between the IC, BSP, CDA and SEC has paved the way for a coordinated approach to formalisation and for stronger coordination in ongoing supervision.
Increased supervisory resources dedicated to supervision of microinsurance	Adaptations made to the supervisory capacity and systems, among those staff training, product approval and performance monitoring (SEGURO), improved transparency on MI business performance and client value, and enabled staff to deal with microinsurance more adequately.

3.5 Strategic Lessons: What remains to be done?

The Philippines developed a comprehensive microinsurance regulatory framework that evolved over time, hand-in-hand with a financial literacy drive and an alternative dispute resolution system. Assessment of the available data shows a market that has matured from being largely informal and MFI-driven to one that includes dedicated MI-MBAs, commercial and cooperative insurers across various product lines, sold by diverse microinsurance intermediaries. However, much of the market is reliant on compulsory credit life insurance sold on a group basis, and many large aggregators have opted to remain group policyholders rather than becoming a formal microinsurance intermediary. The following section on what remains to be done and why.

Further diversify product lines in order to broaden access and tailor to a wider range of needs.

The Philippines started out with a large market of **compulsory credit-linked insurance.** Riding on the fast-growing, massive microfinance industry, these products provided dramatic access to large numbers of people, and have helped create an insurance culture among many previously unserved segments. However, as the market matured over time, it has been found that six years after the rollout of the regulatory framework, much of the life business remains driven by compulsory credit-linked insurance. It is not clear to what extent the products in the market are being actively sold and taken up, and little is known on client understanding, preferences and behaviour. While compulsory microinsurance laid the groundwork for an insurance culture, a market for voluntary insurance needs to grow in parallel.

To some extent, **product variety has improved** with the development of the prototype product, BKK, and MI-MBAs have started to partner with commercial insurers for non-life products. However, the variety of available non-life cover is still limited. The bundling flexibility for example was not taken up by the industry to offer multi-risk products. The *Enhanced Microinsurance Regulatory Framework* (2015) introduced new provisions to encourage the offer of such products, showing that there might have been remaining regulatory barriers. Many insurers currently may lack capacity or appetite to take on new business. More thorough market research and client-centric services may be needed to facilitate the development of products that meet clients' needs.

As at 2014, the **performance of the microinsurance business** showed significant variability, possibly due to many being new entrants. Analysis of this data in an action-oriented way would be important. For example, it should be considered as to whether this variability is an indication of longer-term unsustainability or simply due to new business may take some time to establish and stabilise. Depending on the analysis the appropriate regulatory or complementary measure should then be taken.

Continue to encourage commercial insurers to participate in the microinsurance market.

MI-MBAs continue to account for the largest share of premiums in the life business. Commercial insurers are less engaged in terms of both breadth and depth – the majority of commercial insurers are not yet active in microinsurance, and for those who are active, microinsurance is a minority business line. The lower capital requirements for commercial insurers with more than 50% of their business in microinsurance has not been utilised by any commercial insurer as at end-2014. This indicates that commercial insurers currently lack impetus to move their business downmarket from traditional insurance into microinsurance. This, however, may change with increased capital requirements on the horizon. (At the time this was introduced, in light of the continuously increasing capital requirements arising from Association of Southeast Asian Nations (ASEAN) integration, several commercial insurers expressed that they may potentially focus on microinsurance in the future in order to leverage on this provision). Expectations are that the new regulatory framework (2015) and improved distribution regulations (2016) may do away with certain barriers and encourage commercial insurers to engage more in microinsurance. A more immediate evaluation of the impact of these new rules would be helpful, for example via a thematic regulatory impact evaluation which could be carried out some time after issuance of the new rules.

Explore if diversity of distribution models should be increased.

Intermediation has potential to mature further. The microinsurance regulatory framework paved the way for the creation and proliferation of new microinsurance intermediaries. However, overall, the uptake of agent licenses was lower than expected. Many intermediaries and microinsurers have chosen to remain with pre-existing business models – group policy arrangements or the traditional insurance market. Most MFIs have not taken up the institutional microinsurance agent category. Not many new types of organisations have entered the microinsurance intermediation sphere and individual microinsurance agents also do not yet operate at scale or on a permanent basis. Anecdotal evidence also suggests that microinsurance licenses are often used as a stepping stone towards a full agent licence. Among Rural Banks, the uptake of the institutional agent category was also lower than expected, as most opted to partner with commercial insurers by buying group policies to cover their clients. The IC has since issued the *Microinsurance Distribution Channels Regulatory Framework* in 2016. It provides clarity surrounding the development, utilisation, and conduct of distribution channels to enable efficient and innovative distribution. Again, this reiterates the importance of a timely and punctual regulatory impact evaluation.

4. Synthesis of the two country approaches

Significant levels of coverages have been achieved, and the experience gained has provided important lessons for the way forward.

Looking back over the past decade, microinsurance regulations have generally sought to achieve three main outcomes: Increase access and uptake of insurance by the low-income, increase formal industry participation in the inclusive market and enhance consumer protection. This is well exemplified by the regulatory frameworks of the Philippines and Peru, two pioneering countries who have both sought to achieve these objectives by making transformative regulatory changes over the years. These changes have shaped the two markets significantly, with 6.1 million and 31 million coverages, respectively, reaching the previously uninsured. As a whole, the policy changes were instrumental – despite some remaining challenges towards improving access to inclusive insurance, there has been measurable increase in industry participation and strengthened consumer protection.

This section will highlight some common strengths in the approach, strategies and measures of both countries. It will also explore key differences, which make for valuable lessons as these provide insight into how the effectiveness of the policy approaches, strategies and regulatory measures differ depending on the local country context. The following questions below will be answered in turn:

- What common strategies did the Philippines and Peru deploy?
- What did the Philippines and Peru do differently, and why?
- What are remaining challenges confronting both supervisors?

4.1 Common strategies

High-level support and leadership

Both the IC and SBS had political support and clear articulation of vision from high-level leadership on financial inclusion and access to insurance, supported by interagency collaboration.

The **Philippine Government** provided a clear top-down strategy and political guidance on national development. The Philippine policy and regulatory framework for microinsurance was built on the foundation of the *Philippine Development Plan 2011-2016*, supported by significant dedicated financial and human resources. Under the auspices of the DOF-NCC, the IC collaborated with the BSP, CDA and SEC from conception to implementation. For over a decade, there was the constant, sometimes personal, public commitment and advocacy of the IC, the NCC and key high-level officers, coupled with comprehensive international support and dialogue. In the process, it has entrenched financial inclusion in the orientation of the private and public sector.

The SBS Peru took an active policy stance to promote microinsurance by way of a specific microinsurance regulation, MIR. The focus of the **Peruvian Government** social security and financial inclusion of the low-income had already been clear for some years as they had already been implementing a series of social programmes to promote these objectives. In 2013, the Peruvian government's national "Financial Inclusion Strategy" reconciled these objectives by formally recognising insurance as an essential component of its risk management public policy framework. Peru's Inter-institutional Committee of Financial Inclusion comprises of the Central Bank, SBS, the MEF, the MIDIS and the "Banco de la Nación".

Industry collaboration

Both authorities took measures to ensure collaboration and consultation with the industry.

The driving stakeholders in the **Philippines – DOF-NCC and IC**, supported by various development partners, provided a climate of cooperation between the public and private sectors by providing platforms for dialogue or organising collaborative initiatives such as in training, product development, financial education and development of proposals for diverse regulatory approaches. This was primarily done via establishment of numerous TWGs, which provided an institutionalised platform for the private sector and authorities to share views and technical expertise and jointly develop technical or strategic solutions. The active participation of the industry in the TWGs also enabled the industry to take ownership in the variety of market development efforts over many years.

The **SBS Peru's** cooperation with the industry was initially more informal in nature, and was continually improved over the years. When evaluations revealed that the MIR 2007 had not led to strong participation from the industry in the microinsurance market, the SBS was responsive and open to making regulatory changes soon after. The SBS deepened consultations with the industry to understand the challenges they faced in adopting regulatory provisions under the MIR 2007. This led to the issuance of the MIR 2009, with revised critical aspects of the definition and distribution-related requirements. During the review of the regulations in 2015-2016, the SBS strengthened the depth of industry collaboration via consultative dialogues and providing the industry formal opportunities to give feedback.

Complementary measures

Both jurisdictions deployed a unique combination of complementary actions beyond regulation, via mutually-reinforcing policy measures, national strategies and approaches. The IC and SBS undertook a set of strategic and regulatory measures comprising different combinations of the following elements:

- **Conduct of a microinsurance or inclusive insurance market diagnostic.** The Philippines conducted a comprehensive diagnostic study in the early years of microinsurance market development and regulation. Peru initially did not conduct a diagnostic; however, recognising that the earlier MIRs had not fully led to the intended impact, a diagnostic was conducted when revising their MIR for the second time.
- **Advocacy and communication.** Through various national strategies, sector studies, advocacy initiatives such as press releases, regulations in various forms, and policy initiatives, both the IC and SBS clearly articulated to the industry its policy objectives and strategies.

Financial education. Both authorities dedicated resources and prominence to bolster demand and develop consumer understanding via financial education initiatives. The IC developed the Road Map to Financial Literacy on Microinsurance (2011) which communicated the Government's vision to have "adequate risk protection for the low-income sector through a strong insurance culture among the Filipinos". They also designed a microinsurance logo to give prominence to microinsurance, and enable clients to recognise a microinsurance product and focused on advocacy work with the press. SBS developed material such as leaflets and videos on insurance and microinsurance, and an SBS website "Portal de Usuario" (user portal) containing information on every registered insurance product and price information on selected products such as school insurance.

4.2 Key differences in strategies and regulatory approaches

Table 4.1 summarises the key difference in strategies and regulatory approaches used by Peru and the Philippines.

Table 4.1: Key differences in strategies and regulatory approaches

Item	Peru	The Philippines
Micro-insurance definition	Peru had started with a quantitative definition and abolished it soon after, which in the longer term, did not work so they reintroduced a new quantitative one, see Box 2.1 on page 6.	The Philippines maintained a quantitative microinsurance definition throughout. (see Table 3.2 on page 37
Sequencing of framework implementation and revisions	Peru started with a comprehensive microinsurance regulation, followed by revisions to this particular regulation alongside multiple new regulations. These were not reconciled under one overarching framework for microinsurance or inclusive insurance.	The Philippines started with a microinsurance circular, followed by strategy documents articulating the vision and upcoming measures. This was then complemented by regulatory provisions that built on the content of these strategy documents.
Strategic approach to types of insurers	In terms of regulating microinsurance providers, SBS Peru solely focused on the business line approach and fully relied on one type of insurer, the commercial insurers.	The IC Philippines adopted a mix of the two strategies, institutional and business line approach, and created a new organisational type.
Performance monitoring of micro-insurance business	SBS Peru collected limited microinsurance data about the number of insured covered by MIR, and products registered.	The IC Philippines took a more targeted effort by setting up a dedicated performance monitoring system, the SEGURO Standards, to enable oversight of industry performance, enforcement action and measuring policy impact to inform further work in regulation. These systems enabled the IC to collect more comprehensive data on MIR performance.

5. Conclusions

In the following section, certain conclusions are drawn on the two case studies and on the RIA exercise in general.

On the two countries assessed

Creating lessons for global replication: The RIA case studies reveal that supervisors of both the Philippines and Peru have made great strides in providing an enabling regulatory environment for the provision of microinsurance leading to significant levels of inclusion. Much of this effort has translated to positive impact for the industry and the insured. This success can be traced to several strengths in the supervisors' approaches, which make for rich learning experiences for other supervisors to emulate.

Pilot testing approaches that generate measurable outcomes: Another key observation is that both supervisors carried out continuous evolution and adaptation of the proportionate regulatory frameworks. Each had three tangible phases of clear, significant changes – more so than most countries. Each had continued accumulating and building on learning within the insurance sector and authority in order to adapt and response better to market changes. And there are now clear figures as to what the outcome of their combined, comprehensive and continued efforts are: a total of 37 million new policyholders with insurance.

The two case studies conducted highlighted several important issues:

- **What is the relevance of dedicated microinsurance regulations in the broader context of access to inclusive insurance?** It is a good approach to issue separate regulations for various inclusive insurance product types, such as mass insurance, microinsurance, and in future, e-insurance or mobile insurance – or is it better to integrate all regulations surrounding inclusive insurance under a single "inclusive insurance framework"? Historically, 10 years ago, the movement on inclusive insurance had started with "microinsurance". Over the years, significant effort was put into understanding and conceptualising microinsurance, its product features, distribution models and provider types, and the related regulatory approaches. There is increasing country experience, however, showing that possible other product lines or business models could exist that also contribute to inclusive insurance beyond the prevailing ideas of microinsurance. Peru is an example where the industry had found feasible ways to reach the underserved outside of the microinsurance sphere. To date however there is no experience yet with developing regulations based on a broad conceptualisation of inclusive insurance. Findings so far show that, at most, where parallel frameworks exist it is important to be clear on where they converge or diverge, in order to ensure avoiding confusion for the industry and the new-to-insurance and more vulnerable inclusive insurance consumer.
- **How to better monitor whether inclusive insurance products are actually attuned to consumer needs and truly provide client value?** Both supervisors currently do not have sufficient data that would address this question and hence lack an important input to broader policymaking or regulatory revisions. It is important that supervisors form an understanding of household and small enterprise owners' insurance knowledge, behaviour and preferences, while putting in place mechanisms to assess if consumers are adequately protected and satisfied with the insurance products. This is even more so given increasing digitalisation, leading to products such as mobile insurance reaching massive numbers of

new consumers, among those the low-income. This could be done via regular consumer surveys, focus groups and mystery shopping exercises; however, regulatory changes and adapted supervisory tools specific to these issues may also be required. These exercises could be directly implemented, supported or required by the supervisors. The supervisor could also require insurers to submit selected data on a specific client segment on renewal rates, the effectiveness of microinsurance dispute resolution mechanisms for consumer recourse, or the number of days taken to pay claims and address complaints. Notably, some of these measures have been tested in both jurisdictions. Generating more comprehensive, reliable, frequent and systematically analysed data require respective capacities and funding at the level of the supervisor.

- **How can regulations be streamlined as supervisors continue enhancing them, to ensure they continue to be effective?** With each new amendment to the law or revision to regulations, there is also the risk that regulations become increasingly complex to navigate. It is important that supervisors ensure that law and regulations that are applicable to microinsurance – and other lines – are enhanced in a streamlined manner to avoid unintended consequences such as confusing messages, high compliance costs and opportunities for regulatory arbitrage. In addition, especially where supervision relies on interagency collaboration, regulations may be challenging to enforce and need to be developed and assessed in a collaborative way with other authorities.

On RIAs in general

What were the implementation challenges based on the methodology for RIAs for microinsurance or inclusive insurance? The RIA methodology applied in both cases had been developed in preparing for this study and it was subsequently tested in collaboration with the supervisors in these two jurisdictions (see Annex 3 for more information on methodology used). In 2015, the first ever comprehensive RIA case study for microinsurance was implemented in the Philippines[54], a summary of which is presented in this case study. The Peru case study is mainly based on two studies[55] and complemented with contributions from SBS. Conducting these RIAs was a first step towards a systematic and consistent way of examining the outcomes of microinsurance regulations so far. However, a major constraint during implementation of the RIAs was the lack of baseline and recurrent data collected by the supervisor. Measuring performance against clearly defined indicators proved to be a challenge. Hence, better data collection and a more frequent assessment of this data would in any case inform the supervisor and allow assessment of the regulatory framework against the predefined indicators and strategic objectives.

How can a RIA help support and improve the supervisor's response to findings and market changes? As a whole, both supervisors have remained responsive and continued efforts to address gaps in response to the challenges and remaining challenges discussed in this RIA. The dialogue processes on regulatory impact and remaining regulatory challenges with both supervisors had started in 2014. The RIA approach and case studies had formed part of assessing performance and analysing results based on indicators produced by the regulatory framework. Since then, leveraging on top-level commitment, industry collaboration and support from international development agencies, additional important revisions and enhancements to the legal and regulatory infrastructure surrounding microinsurance have since been made in both jurisdictions.

54 RFPI 2015
55 A2ii 2014, SBS 2015

In order for a RIA to be timely, how soon after implementation should a RIA be conducted? This depends on the nature of the regulations, the market context and which changes the supervisor intends to measure. In any case, there should be sufficient time for the effect of the regulations to have taken place, but the RIA should not be overly delayed in order to enable a prompt response to any challenges or emerging sources of risk. A timeframe of some years (three to five) seems reasonable. However, where possible, preparations should be made in advance. Notably, baseline data should be collected at the time when the regulatory framework is passed to be able to measure any progress against this benchmark.

What are the training requirements and roles in implementing a RIA? The contributions of supervisory staff were crucial for this exercise. Without them, the RIAs would not have been possible. A timely training before or right at the start of the exercise would be beneficial. This would have the advantage that the exercise is truly participatory, embedded in the structures of the respective supervisor and carried by supervisory staff.

How comprehensive should a RIA be? If supervisors feel there are inadequate resources for a full-fledged RIA or time pressures, a targeted, lighter-touch assessment on a certain aspect of the regulatory framework could be a compromise; e.g. working on the question whether the distribution side works, or analysing whether products provide value to the clients. In such cases, the supervisor could then scope the RIA to focus on indicators such as take-up and renewal. However, in doing such lighter-touch RIAs, certain limitations should be recognised; for example, such RIAs may not provide a full picture of all stakeholders and aspects. The benefit of having a comprehensive RIA that addresses regulatory objectives more broadly is that it can be replicated and compared over time.

What is the added value of a RIA? Good-quality, timely RIAs generate reliable assessments that can show whether or not regulatory measures are delivering intended results along pre-defined indicators. These findings can be used to guide timely responses and enhancement of regulations by the supervisor. They also can help inform whether resources being effectively used, which is critical information for supervisors facing capacity challenges. As evident from the above RIAs, they also highlight important gaps such as those relating to adequacy of data collected and data infrastructure. Additionally, it enables the supervisor to demonstrate the benefits or areas of improvements needed for the regulations, which would be highly useful for advocacy work and efforts pushing for collaboration or support from various stakeholders, such as Government ministries, other authorities, the industry or international development organisations.

Moving forward, as the inclusive insurance efforts continue and the microinsurance and inclusive insurance markets continue to mature and diversify, it is highly important that supervisors continue to be proactive. Supervisors should continue to improve how they anticipate and identify responses to challenges both old and new: long-existing challenges such as insurance education and also, emerging challenges, such as digitalisation of business. This will hopefully enable supervisors to continue moving towards closing the gaps in providing financial protection and access to insurance to the uninsured and economically vulnerable.

Annex 1 | List of Relevant Legal and Regulatory Instruments

PERU		
Topic or title of legal /regulatory instrument	**Reference**	**Year Published**
Insurance Contract Law	Law No. 29946	2013
Microinsurance Resolution 2007 (abrogated)	Resolución SBS No. 215-2007	2007
Microinsurance Resolution 2009	Resolución SBS No. 14283-2009	2009
Commercialisation of insurance products (mass insurance)	Resolución SBS No. 2996-2010	2010
Replaces: Commercialisation of insurance products through financial institutions and insurance promoters	Resolución SBS No. 510-2005	2005
Opening, conversion, transfer or closure of offices, use of shared premises, ATMs and correspondent cashiers	Resolución SBS No. 6285-2013	2013
Aprueban el “Reglamento de Canales Complementarios de Atención al Público de las Empresas del Sistema Financiero y de las Empresas Emisoras de Dinero Electrónico” Regulation of Complementary Channels of Attention to the Public of the Companies of the Financial System and of the Electronic Money Issuers	Resolución SBS No. 4798-2015	2015
Opening, conversion, transfer or closure of offices and use of shared premises	Resolución SBS No. 4797-2015	2015
Microinsurance Resolution 2016	Resolución SBS No. 2829-2016	2016

Note: The following were issued under ICL but do not apply to microinsurance

Topic or title of legal /regulatory instrument	Reference	Year Published
Premium payment	Resolución SBS No. 3198-2013	2013
Transparency of information and insurance contracts	Resolución SBS No. 3199-2013	2013
Health insurance	Resolución SBS No. 3203-2013	2013
Claims management and payment	Resolución SBS No. 3202-2013	2013
Use of electronic policies	Resolución SBS No. 3201-2013	2013

THE PHILIPPINES		
Topic or title of legal /regulatory instrument	**Reference**	**Year Published**
Increase in the Amount of Guaranty Fund of Mutual Benefit Associations (MBAs)	IMC No. 2-2006	2006
Adoption of Risk-Based Capital Framework by the Life Insurance Industry	IMC No. 6-2006	2006
Adoption of Risk-Based Capital Framework by the Non-life Insurance Industry	IMC No. 7-2006	2006
Microinsurance Regulation and Declaration of Policy Objectives	IMC No. 9-2006	2006
Adoption of Risk-Based Capital Framework by MBAs	IMC No. 11-2006	2006
Guidelines for the Implementation of KYC and CDD Requirements	CL No. 15-2007	2007
Regulations for the Provision of Microinsurance Products and Services	IMC No. 1-2010	2010
Sale, Issuance or Distribution of Insurance Products	CL No. 29-2010	2010

THE PHILIPPINES		
Topic or title of legal /regulatory instrument	**Reference**	**Year Published**
Marketing, Sale and Servicing of Microinsurance Products	BSP Circular No. 683	2010
And: Guidance for the Implementation of Circular 683 on Marketing, Sale and Servicing of Microinsurance Products	BSP Memorandum No. M-2011-027	2011
Defining Government's Policy on Informal Insurance Activities	JMC No. 1-2010	2010
Guidelines on the Treatment of Funds Collected from Informal Insurance Activities	JMC No. 2-2010	2010
Reminder on the Proper Offering of Microinsurance Services	BSP Memorandum No. M-2011-015	2011
Performance Standards for Microinsurance	CL No. 5-2011	2011
Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents	CL No. 6-2011	2011
Minimum Paid-Up Capital Requirements	DO No. 15 - 2012	2012
Procedures for Accreditation of Mediators-Conciliators in Alternative Dispute Resolution for Microinsurance (ADReM)	CL No. 15-2013	2013
The Insurance Code	Republic Act No. 10607	2013
Guidelines for the Implementation of Alternative Dispute Resolution Mechanisms for Microinsurance (ADReM) Involving Mutual Benefit Associations	CL No. 16-2013	2013
Guidelines for the Implementation of Alternative Dispute Resolution Mechanisms for Microinsurance (ADReM) Involving Cooperative Insurance Societies	CL No. 17- 2013	2013
Guidelines for the Implementation of Alternative Dispute Resolution Mechanisms for Microinsurance (ADReM) Involving Commercial Insurance Companies	CL No. 18-2013	2013
Fees and Charges	CL 2014-15	2014
Adoption and Implementation of the Micro Pre-Need Regulatory Framework	CL 2015-51	2015
Adoption and Implementation of Agriculture Microinsurance Framework	CL 2015-53	2015
Adoption and Implementation of Enhanced Microinsurance Regulatory Framework	CL 2015-54	2015
Regulations for the Provision of Health Microinsurance (MicroHealth) Products and Services	CL 2016-22	2016
Adoption and Implementation of Microinsurance Distribution Channels Regulatory Framework	CL 2016-64	2016

Note: The key categories of regulatory instruments are as follows:

1. Issued by the Department of Finance
- Department Order (DO)

2. Issued by the IC
- Circular Letter (CL)
- IC Memorandum Circular (IMC)

3. Issued by the BSP
- BSP Circular
- BSP Memorandum

4. Issued jointly
- Joint IC-CDA-SEC Memorandum Circular (JMC)

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Annex 3 | Notes on the Methodology for a RIA in Inclusive Insurance (RIAII)

*The **methodology** draws heavily on the inclusion-related Regulatory Impact Assessment Methodology of Bankable Frontier Associates (BFA) and its "Rationale-Objectives-Indicator (ROI)" assessment framework. The adapted methodology here is different from the BFA Methodology in terms of Step 1 (Rationale of the regulation) and Step 2 (Objectives of the regulation). From: BFA Concept Note (Sept 2012, Staschen, Dermish, Giovani). The now proposed RIAII merges the two BFA steps in a new Step 1 (Public interest) and introduces an additional Step 2: Research Framework. All the other steps are similar. Furthermore, two documents were consulted from the Organization for Economic Co-operation and Development (OECD, 2008): Introductory Handbook for Undertaking Regulatory Impact Analysis, and Building an Institutional Framework for Regulatory Impact Analysis. This proposed RIAII methodology was developed for and tested in the Philippines in 2014 - 2015 for the full RFPI Study on Regulatory Impact of Microinsurance (RFPI 2015).*

The Regulatory Impact Assessment in Inclusive Insurance Sector (RIAII) aims at identifying, assessing and informing about the effectiveness of approaches in the areas of policy, regulation and supervision intended to promote an inclusive insurance market. The RIAII can also be implemented for a subset of inclusive insurance, namely microinsurance.

Relying on quantitative data and qualitative information from a variety of sources, it looks at significant impacts of past regulatory, supervisory and policy (RSP) approaches aimed at developing and expanding inclusive insurance. It will consider interactions and overlaps between various policy and regulatory areas. "RIA is an essential policy tool for regulatory quality"; a Regulatory Impact Assessment has the ultimate goal of ensuring that the benefits of government action justify the costs, and that the options chosen maximize benefits and minimize costs.[56] Importantly, a RIA goes beyond merely measuring the outcomes of RSP approaches, such as indicating the number of providers of insurance. In fact, RIA is a decision-making tool based on a method of systematically and consistently examining selected potential impacts arising from government action. An integral part of it is communicating the information to decision-makers and stakeholders in a way that can promote action.

Generally, RIAs exist in a variety of forms and are used in multitude ways reflecting the various policy agendas of governments for example, assessing business impacts, administrative and paperwork burdens, international trade, benefit-cost, environmental impacts, or stakeholders such as sub-national governments, or aboriginal groups, or small businesses, or international trade.

The **objective** of a RIAII specifically is to contribute to understanding more effective RSP approaches to insurance for the low-income segment. Such an understanding should lead to a clear recognition of the effectiveness of different policy initiatives implemented. This should help the regulatory authorities focus more on interventions that generate a greater impact.

The proposed RIAII **methodology** is to examine the consequences of a set of given RSP choices in the insurance sector. The methodology presented here applies an ex-post view and goes back to the first regulatory change with respect to microinsurance.

56 OECD (2008)

Drawing on other RIA methodologies, the proposed RIAII methodology is divided into two main pillars (see figure below). Pillar 1 **outlines the assessment benchmark**, starting from the rationale and objectives of the policy objective (Step 1) along various impact areas and stakeholders (Step 2). Then selected indicators on the impact areas and institutions are then defined (Step 3). Pillar 2 determines impact and strategic lessons. Here, data and information is collected (Step 4); their analysis provides the basis for the assessment (Step 5) and impact is **determined and strategic lessons** to guide next steps identified and identify recommendations (Step 6).

	Pillar 1 - Benchmarking		**Pillar 2 - Assessing**
Step 1 **Public interest**	Identify rationale and policy objectives	Step 4 **Collection**	Collect data and information
Step 2 **Research framework**	Define impact areas, stakeholders and main research questions	Step 5 **Analysis**	Process tracking and assessment of impact
Step 3 **Measures**	Define quantitative and qualitative indicators	Step 6 **Policy changes**	Identify lessons for strategy and policy
	Defining the Assessment Benchmark		**Determining Impact and Strategic Lessons**

Source: Authors, adapted from Bankable Frontier Associates (2012) and from Organisation for Economic Co-operation and Development (2008)

Regarding the activities in both pillars, the following considerations have to be taken into account:

1. **Change can take two directions**: Be on the lookout for positive and negative impacts that certain RSP approaches can have on the various impact areas and stakeholders.
2. **Identify unintended consequences** that RSP approaches can create as they important lessons.
3. **Focus on few indicators:** Be careful not to end up with too much, faulty and noisy data and develop a focused list of indicators that allows drawing a picture (which can be compared with other jurisdictions).
4. **Focus versus broad picture:** A RIAII can show a complete picture of policy interventions, or focus on certain RSP areas or stakeholders, depending on the intended level of effort and objective of the RIAII.

The following sections provide guidance for the implementation of six steps.

STEP 1

Public interest: Identifying rationale and policy objectives of RSP interventions

- **Why?** The question of effectiveness of an intervention in policy, regulation and supervision needs to focus on its intention.
- **What?** Identify the policy statements that led to the RSP change.
- **How?** Look at a) market failures which were identified and were the driving forces for the policy direction or regulatory or supervisory change, as well as the b) general public interest objectives as stated in policy documents, government speeches or other relevant documents.

Note:
*(1) An ex-post RIA builds on **existing policy or regulatory documents** which reflect the previous policy process that underwent the exercise of identifying market failures, defining public policy objectives.*
*(2) Verify whether the **policy goals were appropriate and complete**.*

Examples of market failures and public interest objectives:

a) Market failures that induce the RSP interventions:

- Imperfect competition: barriers to entry; competition between regulated and unregulated insurers; risk of monopoly in remote markets
- Information problems of the insured: lower level of financial and insurance literacy; lack of knowhow of the benefit of insurance, what products to choose and which providers to select; lack of knowledge of rights and responsibilities.

b) Public interest objectives driving the RSP interventions:

- Overarching objectives:
  - Improve access
  - Safety and soundness of providers
  - Establish a competitive market
  - Protect consumers
- Secondary objectives (more technical):
  - Provide a path for formalisation
  - Abolish entry barriers
  - Motivate providers
  - Promote safety and soundness of providers
  - Improve transparency

STEP 2

Research framework: Identifying the scope, stakeholders and main research questions

==

- **Why?** To agree on framework as intermediate step before indicators are set.
- **What?** Define scope, stakeholders and the hypothetical changes; as well as main research questions to make the underlying logic of the assessment clear.
- **How?** Collect the pressing questions to be answered. Derive the questions from the market failures and policy objectives identified in Step 1, including any additional topics defined outside of formal statements

Note:
Questions need to be grouped and prioritized. Focus on those that can be expected to resolve the challenges the interventions are supposed to abolish. However, do not forget to show others which emerged as side effects or which are an important milestone in the impact chain, without having been explicitly mentioned in the policy statement or regulation.

Examples of research dimensions and questions:

a) **Dimensions that can be researched:**

- Market development
- Institutional development (including regulatory capacity, or capacities of service providers)
- Client value

b) **Business impact - examples for research questions:**

- Which categories of companies have experienced impact on their business?
- How many companies are affected by the legislation (formalization, entry, intermediation, consumer protection, monitoring etc.)?
- What is the nature and scale of the costs and benefits for companies concerned (investments, versus business volumes, profitability)?
- How did the legislation affect market mechanisms (such as competition)?
- Is there any important impact of the related wider financial sector or business community (e.g. on lending business, on meso level institutions, new entrants to the insurance value chain such as non-traditional intermediaries)?
- What are other socioeconomic effects (e.g. employment in insurers or intermediaries)?

c) **Impact on regulatory capacity and effectiveness – examples for research questions**

- Which organizations implement and enforce the proposed legislation?
- What is their opinion of the practicability and enforceability and the associated costs?
- Which changes were made in the supervisory authority and other authorities (staffing, structure, budget, systems etc.)

d) Client value impact

- Which types of clients are benefitting?
- What are their characteristics e.g. location, demographics, income, occupation, culture?
- Which are the product criteria that reflect client benefit?

STEP 3

Measures: Defining quantitative and qualitative indicators

==

- **Why?** Before entering into data collection, the different categories where impact is supposed to be achieved and respective indicators need to be identified and clearly linked to the policy objectives.
- **What?** Define the categories and detailed indicators along which impact will be measured.
- **How?** Desk work and team discussions will provide the areas, priorities and detailed benchmarks for the latter assessment.

Examples of Indicators

a) Market outcomes (Market development)

- Number of providers engaged (insurers and intermediaries)
- Number of insurers and intermediaries formalized
- Number of policies sold (business volume)
- Product value: Claims ratios, renewal ratio

b) Institutional changes (Institutional development)

- New providers (size, business area covered, sustainability)
- Informal providers having formalized
- Commercial insurers engaged
- Intermediaries licensed; intermediaries engaged
- Institutionalization of dispute resolution, ombudsman, code of conduct
- Access to reinsurance
- Changes in commission

Note that each country assessment is based on a different set of indicators according to the information available and the agreement with the respective supervisor.

STEP 4

Collection: Quantitative and qualitative data and information

==

- **Why?** Collect reliable and valuable information that forms the basis for data analysis.
- **What?** Collect data that is divided into quantitative and qualitative information.
- **How?** Use a variety of sources and collect data and information from multiple data points, e.g. interviews, studies and data from the NIC, MOF, BCB, the web; projects of development organizations, insurance providers and intermediaries

Note:
Data tracking: Go back to x years before the first policy or regulatory interventions, or a point in time before subsequent interventions were made; try to show baseline data i.e. data BEFORE the intervention to prove that the policy, regulatory change or supervisory intervention had an impact (positive or negative).

STEP 5

Analysis: Assessment of impact

==

- **Why?** As a core step of the RIAII, this step is important to put the many puzzle pieces together to identify impact that was achieved, including unintended impacts.
- **What?** Triangulate the overall picture from the data and information sources along the indicators identified in Step 3. Consider the interaction of factors and extract salient outcomes, which are then compared to the predefined hypothesis/policy objectives within the categories.
- **How?** Do a comprehensive analysis of facts and figures, establish sector trends, develop maps and tables, using the defined benchmarks (categories and indicators) as yardstick.

Notes[57]:

- ***Isolating regulatory impact:*** *Consider the effects of other exogenous changes which happened as they can influence institutional or market development (such as non-regulatory government interventions, taxation, macroeconomic changes, political stability, and foreign investment).*
- ***Beware of attribution gaps:*** *Changes in the values of impact indicators should be clearly attributable to a specific regulatory change.*
- ***Along indicators:*** *Fill in data and extract key messages for each category and indicator.*

57 Structural breaks can be used if one can claim with some confidence that the most important change during the observation period has indeed been the change in regulatory treatment. It requires time series data (for quantitative indicators) and qualitative information about systems and processes for at least a few years prior to the introduction of the regulatory change (the treatment year). A sudden change (a "structural break") around the time when the treatment occurs can then be attributed to the treatment (Staschen, 2012)

STEP 6

Conclusions and recommendations: summary of arguments for further RSP adjustments

==

- **Why?** The final step of the RIAII identifies lessons from the findings and insights or recommendations for the way forward.
- **What?** Identify and come up with conclusions beyond the categories and indicators on areas that emerge from step 5. These can be actionable recommendations that can guide subsequent impact assessments, or topics to further investigate for the longer-term.
- **How?** Draw strategic lessons from a combination of insights from various stakeholders, including supervisors themselves.

Main sources of information used for this methodology

- IAIS (2012): Application paper on regulation and supervision supporting inclusive insurance markets.
- Bankable Frontier Associates (2012): Regulatory Impact Assessment Methodology: Towards Evidence Based Policy Making in Financial Inclusion (Concept Note)
- OECD (2008): Building an Institutional Framework for Regulatory Impact Analysis, Guidance for Policymakers

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