FORMALIZING THE INFORMAL: MICROINSURANCE IN THE PHILIPPINES

JOSELITO S. ALMARIO
Promoting Successful Regulatory and Supervisory Approaches for Increased Access to Insurance
Basel, Switzerland July 6-8, 2010
OVERVIEW

- 26.7 million Filipinos of 90 million are below the poverty line
- Only 2.9 million have some kind of risk protection
- Of those provided, 50% were covered by informal insurance schemes
FORMAL INSURERS HESITANT TO GO DOWN

- High transactions costs
- Uncertainty
- Actuarial difficulties
- Regulatory environment

- Exclusion of a large segment of the population from insurance
WHO THEN PROVIDES INSURANCE

Most are informal community-based entities with:

– Microfinance operations
– Unique distribution system in place
– Demand felt on a daily basis.
– Clients FREQUENTLY asking for insurance

The temptation is there, **but so are the risks** but they do not know!
### PROS AND CONS

**Advantages**
- Existing distribution channels for credit and savings reach poor clients frequently at a relatively low cost
- Already focused on reducing transactions cost
- Potential for integration of insurance with other financial services
- Pre-established groups for group-based insurance

**Disadvantages**
- Lack of insurance expertise
- Limited ability to finance the initial investment required to start up an insurance product
- Lack of managerial expertise in running the operations of an insurer
- Relatively small client base
- Limited geographic scope
Microinsurance providers are prone to:

- Fraud
- Mismanagement
- Unsound financial practices, and
- Failures.

They tend to create risks for the target clients and the very institution itself.
WHO SHOULD BE REGULATED?

WITH REGULATION

– Contributions/premiums are regularly collected prior to the occurrence of a contingent event; and

– Guaranteed benefits are provided upon the occurrence of a contingent event.

NO REGULATION

• Individuals voluntarily pledge and contribute a certain amount of money to a fund

• Benefits are not pre-determined but are contingent to the amounts collected.
REGULATORY ENVIRONMENT SHOULD

• Ensure viability and sustainability of microinsurance providers
• Protect the premiums and contributions of the clients
• Ensure that insurance claims are delivered when due;
• Level the playing field; and
• Promote good governance, transparency and efficiency.
PROVIDE SPACE FOR FORMALIZATION

• Define the roles of
  – Commercial insurance entities;
  – Mutuals and cooperatives;
  – Agents and Brokers; and
  – reinsurers

• Transform small informal member-based microinsurance providers to formal institutions

• Build the capacities of regulated insurance providers to provide microinsurance
WHAT WAS DONE

• Additional Admitted Assets for microinsurance providers
• Lower entry-level capitalization requirements for mutuals and cooperatives
• Liberal licensing requirements for microinsurance agents and brokers to include microfinance institutions (rural banks, cooperatives and NGOs)
• Relaxed KYC requirements
WHAT IS BEING DONE

• Formulation of the Performance Standards
• Revision of the Risk-Based Capital Framework considering microinsurance operations
• Development of Microinsurance Products
• Institutionalization of Financial Literacy for Microinsurance
WHAT NEEDS TO BE DONE

• Establish data and information in rural areas for actuarial work
• Tap local government units as linkages with rural communities
• Comprehensive implementation of financial literacy on microinsurance to all stakeholders
• Use of wireless technology
“If microcredit provides the present financial needs of the poor, then microinsurance ensures their future financial needs”
Magpaseguero para Protektado!

microinsurancephil.blogspot.com