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## Regulatory Impact Assessments: Microinsurance Regulations in Peru and the Philippines<sup>1</sup>

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### Background

Insurance supervisors in emerging and developing markets have been developing policy, regulatory and supervisory approaches to foster markets for inclusive insurance for more than a decade<sup>2</sup>. 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). The Philippines and Peru have been selected as case studies for two reasons. The first is, being early pioneers of measures to develop microinsurance using 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

<sup>1</sup> This note highlights key findings from the full paper available on the [A2ii website](#)

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

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.

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<sup>3</sup>. 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.

## About the RIA

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 (see below):

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<sup>3</sup> Peru: 'Encouraging access to insurance in Peru: Reshaping the insurance environment for the underserved and unserved population' (A2ii, April 2014) and 'Case study Microinsurance Market Development in Peru' (SBS, June 2015); The Philippines: 'Regulatory Impact Assessment Microinsurance in the Philippines' (GIZ RFPI Asia and IC), 2015

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### 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

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### 2 Regulatory change: What was implemented?

A closer look at the policy measures, namely implemented changes to regulatory environment and supervisory tools and techniques.

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### 3 Outcome: What has changed?

Outcomes based on an assessment of quantitative indicators drawn from available data.

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### 4 Assessment: What objectives were achieved and what remains to be done?

Analysis of impact on policy objectives, and remaining gaps and challenges faced.

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### 5 Synthesis: What are key observations and lessons?

Lessons that can be drawn by comparing respective country contexts, approaches and impact.

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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.



## PERU

### Background

For many years, the Peruvian Government had already been implementing a series of programmes to promote social security and financial inclusion of the lower socioeconomic levels. This included health insurance for the most vulnerable, pension schemes for formal employees and microenterprises, microfinance development, subsidised disaster and weather-related agricultural insurance schemes, as well as mandatory insurance for traffic accidents and workers' compensation and life. In 2007, to further promote insurance for the low-income, the Superintendencia de Banca, Seguros y AFP, Peru (SBS) issued a dedicated microinsurance regulatory framework (MIR), which was revised in 2009 and 2016. SBS also took other wide-ranging measures to promote other aspects of inclusive insurance and consumer protection. Two notable instances were the issuance of the mass insurance framework and the Insurance Contract Law, which impacted the outcomes of

the microinsurance regulatory framework. A key overarching focus of the SBS is to widen the range of distribution channels for insurance. SBS also played an active role in insurance education initiatives, which included targeted measures for the low-income segment. In 2013, the Peruvian government's national "Financial Inclusion Strategy" formally recognised insurance as an essential component of its risk management public policy framework.

### 1. Objective:

#### What was the stated intention of the microinsurance regulatory framework?

The overarching policy objectives for microinsurance can be formulated along three dimensions.

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



## 2. Regulatory change<sup>4</sup>: What was implemented?

1 (2007 – 2009) Introduction of comprehensive microinsurance regulations for the first time	2 (end 2009 – 2015) Revision of the microinsurance regulations as well as new law and regulations	3 (2016 onwards) <sup>4</sup> Revisions responding to gaps in current framework, market trends and industry consultation
<ul style="list-style-type: none"> <li>Quantitative microinsurance definition</li> <li>New distribution channels - microinsurance marketers</li> <li>Conduct of business, i.e. products, policy or certificate, distribution, premium payment, claims settlement, complaints and reporting</li> </ul>	<ul style="list-style-type: none"> <li>Abolishment of the quantitative definition</li> <li>Introduction of less stringent product features, more distribution options, more flexible policy ending</li> </ul> <p><b>Additionally:</b></p> <ul style="list-style-type: none"> <li>Issuance of the mass insurance framework in 2010</li> <li>Introduction of Insurance Contract Law in 2013</li> </ul>	<ul style="list-style-type: none"> <li>A new definition of microinsurance with mixed qualitative and quantitative parameters</li> <li>A more efficient product registration process</li> <li>Use of electronic policies and distance marketing</li> <li>Conduct of business improvements, i.e. shorter claims settlement timeline, disclosure, training and supervision of intermediaries</li> </ul>

## 3. Outcome: What has changed?

Indicator	Description
<b>Number of clients reached</b>	The number of covers under products registered as microinsurance grew 243% between 2010 and 2014 to reach 804,453. However, there was a sharp decrease between 2013 and 2014 mainly due to a reduction in number of covers by one insurer.
<b>Insurers in microinsurance</b>	Nine out of the 18 total insurance companies had registered MIR products at end-2014. Total industry microinsurance premiums grew constantly between 2011 and 2014. Four insurers held a significant proportion of microinsurance business.
<b>Active products</b>	A total of 109 products were registered under the MIRs as at end-2014. 39 of these 109 microinsurance products showed sales, as at end-2014. However, a majority of products and sales were by two insurers.
<b>Product diversity</b>	Personal accident and health microinsurance account for 63% of the total 804,453 covers. 35% are life covers, and only 2% are other general covers.
<b>Variety of distributors</b>	Authors were not able to obtain data delineating microinsurance marketers from other intermediaries specifically. However, it was found that 84% of the intermediaries channeling insurance to segments C, D and E are microfinance institutions (MFIs).
<b>Client value</b>	Aggregate claims ratio of microinsurance was 21.23% for 2014. Authors were not able to obtain comparative data on claims ratio.

<sup>4</sup> A revised microinsurance resolution was issued in May 2016 in response to SBS's further evaluations, changing trends and recent international developments. The impact of this was not assessed as it is currently too recent. See Box 2.2 of the full RIA for details.

**4. Assessment:**

**What objectives were achieved and what remains to be done?**

**→ 1. Is the low-income segment served as a result of the microinsurance regulatory framework?**

Insurance uptake that is directly attributable to the microinsurance regulatory framework is not high. 804,453 microinsurance covers comprises only 5% of the total potential market of 16 million and approximately 13% of the total 6.1 million inclusive insurance covers under all types of insurance that were sold to the lower-income segments i.e. microinsurance, mass, mandatory and personal insurance.

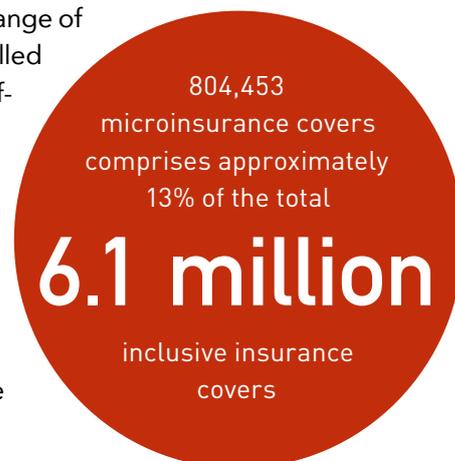
Client value is uncertain. However, it was reported that meeting the required claims timeline for microinsurance, especially in rural areas, has been a challenge. There were also instances where some insurers registered what were essentially downsized traditional products as microinsurance, with little consideration of genuinely meeting the low-income segment’s needs. These examples however are anecdotal.

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

There appears to be a high number of microinsurance products registered as well as high participation by insurers. However SBS’s internal evaluations and dialogues with the industry revealed that insurers found the MIR product parameters too narrow and financially non-viable, which resulted in insurers not registering products as microinsurance.

The authors could not obtain specific data on the number of microinsurance marketers but from anecdotal evidence it is understood that many insurers preferred to continue distributing under bancassurance or group policies rather than to leverage on microinsurance marketers. The mass commercialisation resolution created a new classification of insurance products, termed “mass insurance”, which

could be sold via a wide range of distribution channels called “mass marketers”. This offered new, cost-effective distribution options for insurers, thus enabling opportunities for regulatory arbitrage and reducing the appeal of registering microinsurance products under the MIR.



**→ 3. Is consumer protection effective?**

Clients of MIR products are assured a minimum level of product suitability via product design and servicing requirements. However the authors could not obtain data on the effect of these regulations. The new law ICL 2013 brought about important transparency changes which technically did not apply to microinsurance, but it was not always clear to the industry which regulatory provisions applied to which product.

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**What remains to be done?**

- Streamline inclusive insurance initiatives and the various applicable regulations to ensure no unintended opportunities for the industry to practice regulatory arbitrage occur.
- Provide more clarity to the industry and public on the applicable regulations.
- Diversify the voluntary microinsurance market, with particular focus on increasing genuine industry participation, distribution model innovation and range of high-quality products.
- Collect and analyse meaningful and consistent supervisory data on impact of all inclusive insurance regulations to inform future policy and regulatory measures.

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## THE PHILIPPINES

### Background

Over the years, the 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 microinsurance policy that also incorporated risk protection. In subsequent years, Philippine policymakers specifically identified a role for microinsurance in financial inclusion efforts. The Philippine Development Plan 2011-2016 is an overarching policy document that formally recognises inclusive insurance as a priority. In terms of regulations, the Insurance Commission (IC) issued the first microinsurance circular in 2006, with the aim to formalise the informal activities and provide a definition of microinsurance products. The Philippines eventually embarked on a dedicated microinsurance strategy in 2010,

published in four key papers that formed the backbone of a subsequent series of regulatory and legal instruments, changes to the supervisory approach and collaboration among the various authorities involved.

### 1. Objective: What was the stated intention of the microinsurance regulatory framework?

The overarching policy objectives for microinsurance can be formulated along three dimensions.

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



## 2. Regulatory change: What was implemented?

1 (2006 – 2009) Definition of microinsurance and creation of a new tier of microinsurance providers	2 (2010 – 2013) Introduction of comprehensive set of national strategies for microinsurance including a proportionate regulatory framework	3 (2015 onwards) Further revision and development of overall regulations and regulations for specific lines
<ul style="list-style-type: none"> <li>• Issuance of IC Circular creating microinsurance mutual benefit associations (MI-MBAs), defining microinsurance, setting product and intermediary standards</li> <li>• Lighter Know Your Customer requirements</li> <li>• Central bank (Bangko Sentral ng Pilipinas, BSP) rule allowing rural and thrift banks to market microinsurance</li> </ul>	<ul style="list-style-type: none"> <li>• Publication of landmark microinsurance strategy document and three supporting documents:                             <ul style="list-style-type: none"> <li>• ‘National Strategy on Microinsurance’ (2010)</li> <li>• ‘Regulatory Framework for Microinsurance’ (2010)</li> <li>• ‘Roadmap to Financial Literacy on Microinsurance’ (2011)</li> <li>• ‘Alternative Dispute Resolution Mechanism (ADReM) Framework for Microinsurance’ (2012)</li> </ul> </li> <li>• A series of legal and regulatory instruments putting into effect the strategies, mostly of the IC but some involving other authorities</li> <li>• Joint formalisation approach with other financial services supervisors</li> <li>• Circular and system on separate performance monitoring for microinsurance (SEGURO)</li> </ul>	<ul style="list-style-type: none"> <li>• Issuance of IC regulations called “Enhanced Regulatory Framework” addressing microinsurance distribution product bundling and reinsurance</li> <li>• Issuance of IC regulations for certain sectors via three regulatory frameworks including MicroAgri Framework, Micro Pre-need Framework and MicroHealth Framework</li> </ul>

## 3. Outcome: What has changed?

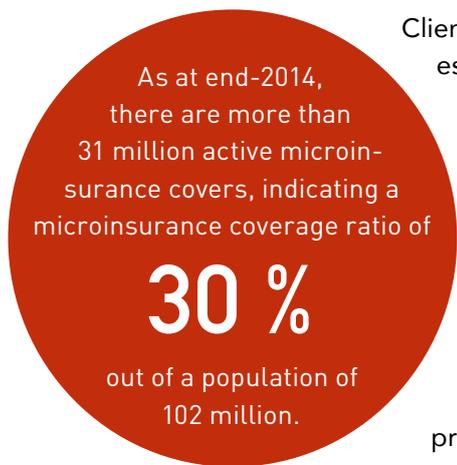
Indicator	Description
<b>Number of clients reached</b>	The total reach of microinsurance via formalised insurers grew 25% per year on average from 19.88 million to 31.10 million covers between 2012 and 2014.
<b>Insurers in microinsurance</b>	At end-2014, close to half (63 of 138) of all insurers have ventured into microinsurance. A majority of the market share is held by MI-MBAs. 19 out of the 41 insurers who reported on microinsurance premiums based on the SEGURO indicators reported growing business volumes.
<b>Active products</b>	Total number of registered microinsurance products as at end-2014 was 162 out of which 12 had no sales. Authors could not obtain complete data on how many products are actively marketed or have actual take-up.
<b>Product diversity</b>	A majority of products are group coverages (many of which providing accident cover) and compulsory life insurance policies.
<b>Variety of distributors</b>	The number of microinsurance intermediaries increased from 22 to 170 between 2011 and 2014. Most are individual microinsurance agents. Most Rural Banks opted to partner with commercial insurers by buying group microinsurance policy coverage on behalf of clients.
<b>Client value</b>	The SEGURO indicators show that, between 2012 and 2014, the total average claims ratio increased from 32.4% to 44.2%. The non-life claims ratio increased sharply between 2013 and 2014 due to the Haiyan storm.

**4. Assessment:**

What objectives were achieved and what remains to be done?

**→ 1. Did the framework lead to broad-based access?**

As at end-2014, there are more than 31 million active microinsurance covers, indicating a microinsurance coverage ratio of 30% out of a population of 102 million.



Client value is uncertain, especially as data is lacking. Much of the life business remains driven by compulsory credit-linked insurance and accident policies. Average claims ratio increased from 2012-1014 but there is significant variability between product lines and it was a particularly volatile period due to the Haiyan storm.

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

Prior to 2006, microinsurance was dominated by microfinance institutions (MFIs). Post-implementation of the framework, microinsurers today comprise commercial and cooperative insurers and MI-MBAs competing for market share with MFIs in the form of Rural Banks, cooperatives and NGOs acting as agents.

MI-MBAs continue to account for the largest share of premiums in life business. Commercial insurers are less engaged in terms of both breadth and depth. Despite the relative high number of commercial insurers active in microinsurance, for many, microinsurance is still a minority business line. Many potential intermediaries, such as Rural Banks, have chosen to remain with pre-existing business models such as group policy arrangements. Not many new types of organisations have entered the microinsurance intermediation sphere.

**→ 3. Is consumer protection effective?**

Many microinsurance clients who previously had informal cover now benefit from formal regulations on conduct of business.

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**What remains to be done?**

- Further diversify product lines in order to broaden access and tailor to a wider range of needs
- Continue to encourage commercial insurers to participate in the microinsurance market
- Explore if diversity of distribution models should be increased

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## Synthesis

### What common lessons can be drawn from Peru and the Philippines?

#### 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 inter-agency collaboration. This helped provide and maintain momentum for implementation of microinsurance initiatives.

#### Industry collaboration

Both authorities took concerted measures to ensure collaboration and consultation with the industry. The Philippines in particular organised the consultation via dedicated cross-stakeholder Technical Working Groups from the start. Peru strengthened collaboration with the industry after finding that the industry considered the initial microinsurance definition too narrow. Industry collaboration was necessary to secure the active participation of the industry while enabling the industry to take more ownership of microinsurance development.

#### 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. A market diagnostic is important to ensure that regulatory changes are aligned with the realities of the local market context.

#### Financial education

Both authorities dedicated resources and prominence to financial education as this was seen as crucial to bolster demand and develop consumer understanding. The IC issued a roadmap for financial education, designed a microinsurance logo 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.

### What were notable differences in their strategies?

#### Microinsurance definition

Peru had started with a quantitative microinsurance definition, but changed it to an outcome-focused qualitative definition in 2009 i.e. the product should “respond to the profile and needs of the underserved” to create a more feasible definition for the industry. In 2016, after finding that a concrete definition was necessary, they reintroduced a new quantitative definition. The Philippines maintained a quantitative microinsurance definition throughout and focused on adapting the quantitative thresholds of the definition.

#### Sequencing of framework implementation

Peru issued multiple regulatory frameworks targeted at inclusive insurance in parallel as a means of pursuing multiple policy objectives simultaneously: microinsurance to create access to insurance specifically for the



low-income segment, and mass insurance to widen distribution channels available without a specific target group in mind. These were not reconciled under one overarching framework for microinsurance or inclusive insurance. This created issues of regulatory arbitrage and a lack of clarity on which regulatory requirements applied to microinsurance. The Philippines published an overarching regulatory framework for microinsurance and all subsequent microinsurance regulations (over 20 different circulars and other legal instruments) were issued anchored on the overarching framework.

**Approach to supervision of microinsurance business**

SBS Peru regulated microinsurance by business line i.e. they did not issue dedicated licenses for microinsurance-only providers as the predominant insurance providers in Peru were commercial insurers. The IC Philippines adopted a mix of the two strategies, institutional and business line approach, and created a dedicated microinsurance license. The dedicated license was a means of formalising the many MFIs, including NGOs and cooperatives that had self-insurance schemes that they were operating informally, i.e. without an insurance licence.

37

million

new policyholders with insurance



## Conclusion

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.

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 respond 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 over 37 million new policyholders with insurance.

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