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International Cooperative and
Mutual Insurance Federation



KEY FINDINGS

From the ICMIF country diagnostic study on mutual
and cooperative microinsurance in the Philippines

May 2018

Country profile

The Philippines has one of the most vibrant economies in East Asia with sound economic fundamentals and a globally recognized competitive workforce. From 2010 to 2014, the Philippines achieved an average growth rate of 6.3%, the highest in nearly four decades. The Philippine population was estimated at 99.9 million in 2014 and is expected to increase to 109.9 million by 2020.

However, poverty and inequity remains prevalent in the Philippines with 25% of the population living below the poverty line, many of these are severely impacted by climate related events. Lack of adequate safety nets leave the majority of the population vulnerable to risks, both predictable and unpredictable.

The Philippines is situated in the “Pacific Ring of Fire”, where frequent earthquakes and volcanic activity occur due to the movements of the Eurasian and Pacific tectonic plates. The country experiences an average of 20 earthquakes per day. There are also about 300 volcanoes, of which 22 are active. The Philippines is located along the typhoon belt in the Pacific making it vulnerable to extreme weather occurrences. An average of 20 typhoons or tropical cyclones hits the country every year, which brings floods, landslides and heavy monsoon rains. The coastal areas are also vulnerable to tsunamis and rising sea levels.

The microinsurance sector in the Philippines

Recognizing that economic benefits have not trickled down to the majority of Filipinos, the Philippine government vigorously pursues an inclusive growth focus in its five-year development plan. A key component of the strategy is financial inclusion which seeks to increase access of the underserved and low-income segments of society to affordable financial services. The government, recognizing the poor’s vulnerability to risk, has made microinsurance a cornerstone of their financial inclusion policy.

The Philippine microinsurance sector has grown rapidly ever since the Insurance Commission issued circulars introducing a new tier for Microinsurance Mutual Benefit Associations (Mi-MBAs) and defining microinsurance products in 2006. Microinsurance coverage expanded from a mere 3.1 million before 2008 to 31.1 million by the end of 2014.

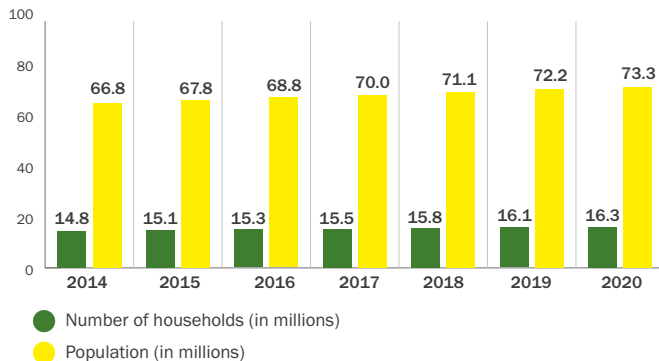
The Philippine Insurance Code as amended in 2013 provides the legal basis for microinsurance. It spells out the definition of microinsurance, the capital requirements for new and existing microinsurance entities and the reporting requirements. Mutual organizations engaged in microinsurance are governed by a set of institutional regulations separate and distinct from that of cooperatives and commercial providers.



Demand for microinsurance

The potential size of the microinsurance market in 2014 was estimated at 14.8 million households (or 66.6 million Filipinos). The market is estimated to expand to 16.3 million households (73.3 million Filipinos) by 2020. Figure 1 below shows the potential size of the market from 2014 to 2020.

Figure 1. Projected microinsurance market, Philippines, 2014-2020



Among the most important unpredictable risks faced by low-income households in the Philippines are; health, natural calamity, accident and death.

Mutual microinsurance providers

Mutual organizations dominate the microinsurance sector contributing 77% of the total microinsurance coverage. Two types of mutual organization exist in the Philippines: the cooperative insurance societies (CISs) and the Mi-MBAs. CISs have been in existence for four decades even before the formalization of microinsurance and contribute 26% to the total coverage. Mi-MBAs are young, with an average age of eight years, and lead the microinsurance field with 51% of the total coverage.

Mi-MBAs

Under IMC 9-2006, Mi-MBAs are distinctly differentiated from regular MBAs. An MBA can only be considered as an Mi-MBA if it meets two conditions: 1) it must only provide microinsurance policies to its members; and 2) it must have at least 5,000 member-clients.

The initial capital requirements to start an Mi-MBA is lower compared to a regular MBA. A new regular MBA must have a capital of PHP 125 million (USD 2.6 million¹) to acquire a license. An Mi-MBA is only required to deposit a minimum amount of PHP 5 million (USD 106,383) as a guaranty fund to acquire a license to operate compared to PHP 125 million (USD 2.66 million) capital required for new regular MBAs.

Mi-MBAs are not allowed to provide non-life products and can only offer basic and optional life insurance products to their members.

CISs

The Philippine Cooperative Code of 2008 allows for the registration of an insurance cooperative with the purpose of providing members of its constituent cooperatives with life and non-life insurance in the form of either microfinance or regular insurance products.

The Insurance Commission has the discretion to reduce the capital requirements of cooperative insurers by up to 50% if at least half of the portfolio is microinsurance.

The protection gap

The 2014 figure showed 47% of the potential microinsurance market of 66.6 million (14.8 million households) was covered. The remaining 53% (35.5 million households) remained untouched and present an opportunity for mutual organizations to expand their market coverage.

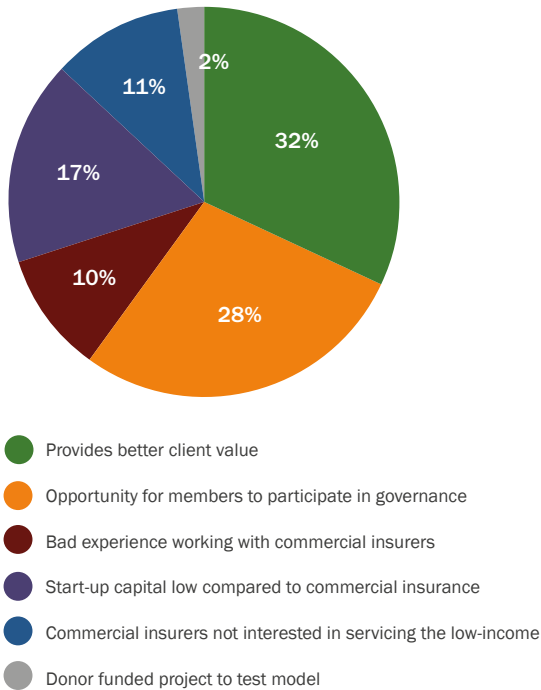
¹ Exchange rate: USD 1 = PHP 47

The profile of mutual microinsurance providers

Mi-MBAs are not-for-profit organizations with a homogenous low-income individual membership. CISs are for profit organizations with institutional (primary) cooperative membership.

Purpose for starting mutual microinsurance

Figure 2. Reasons for starting a mutual organization



Roles of members in governance and management

Sixty percent of the responses state that the members are involved in the claims approval and settlement process while 33% claim members' involvement in day to day operations.

Figure 3. Market coverage, 2014 (in millions)

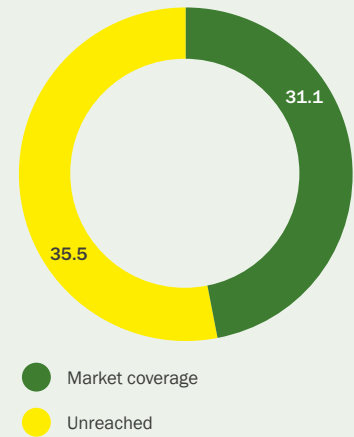
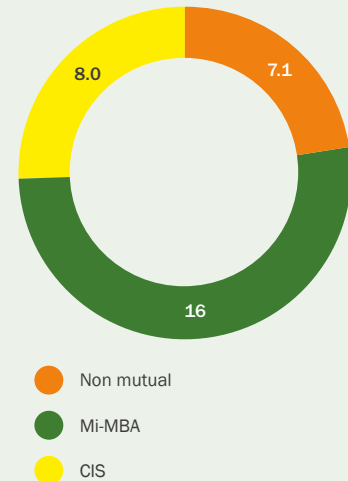
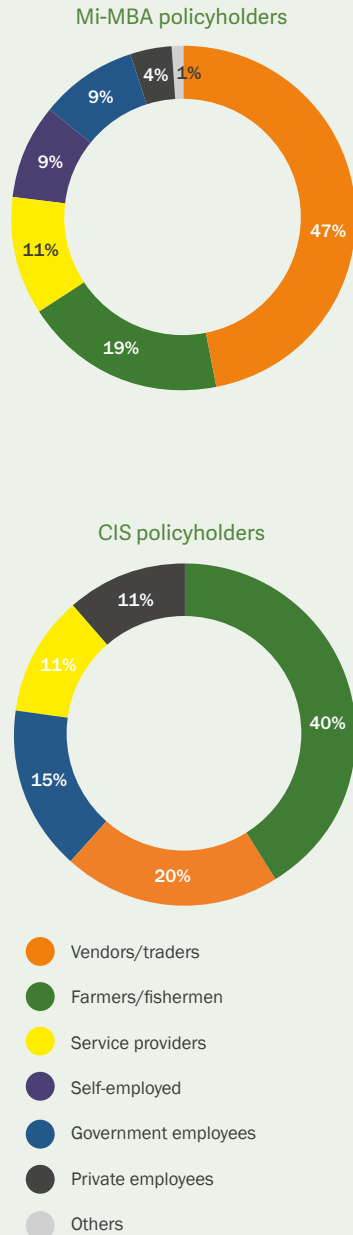


Figure 4. Market share of mutual microinsurers, 2014 (in millions)



(Mi-MBAs' coverage was based on the policies issued to client members at an average of four family members covered per policy. CIS coverage was based on their reported clients although further validation may need to be done to check whether all are microinsurance clients as per the regulatory definition)

Figure 5. Occupation of policyholders



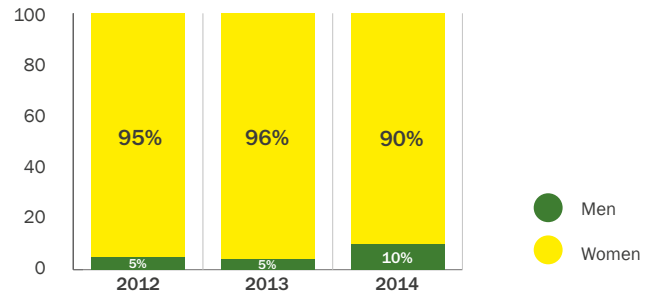
Occupation of policyholders

Survey results indicated that policyholders were mostly engaged in selling/vending and trading activities. The second highest occupational grouping was farming and fishing followed by government employees.

Gender composition of members/policyholders

For Mi-MBAs, 90% of member policyholders in 2014 were women according to data compiled by RIMANSI (Figure 6).

Figure 6. Mi-MBA membership composition by gender

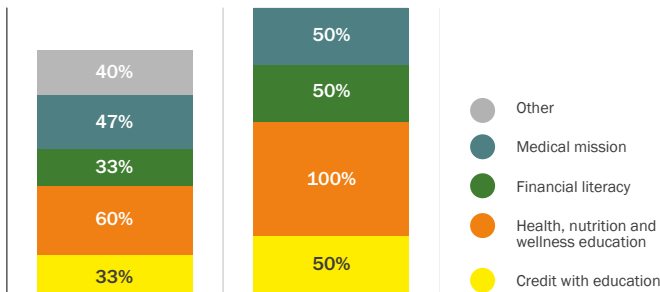


Distribution by regions

By regional distribution, CIS policyholders were located in the major economic hubs of Manila, Cebu and Davao Region VII (33%), NCR (28%) and Region XI (14%). This was due to the fact that bigger cooperative primaries were located in urban and suburban areas. In comparison, Mi-MBA policyholders were mostly located in Region IV-A (20%), Region V (11%), Region III (9%), Region IV-B (7%) and Region I (7%).

Value-added services

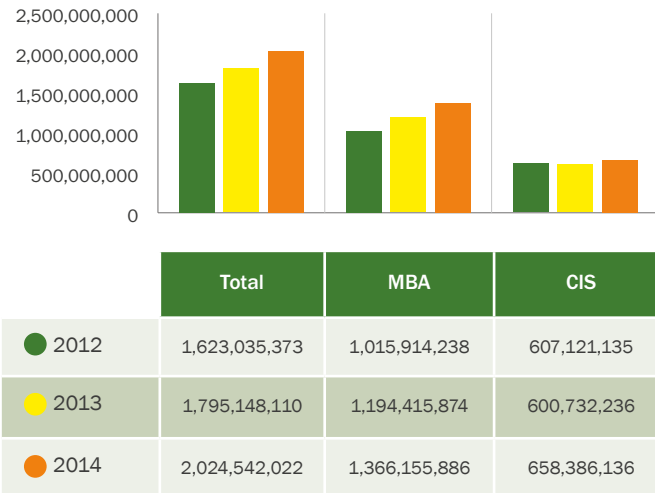
Figure 7. Value-added services provided



Benefit payouts

Total benefits paid out by the CISs and Mi-MBAs in 2014 amounted to PHP 2 billion (USD 43 million) with 67% contributed by the Mi-MBAs and 33% by the CISs. The total amount of benefits paid out grew by 11% in 2013 and by 13% in 2014.

Figure 8. Benefits paid to members (PHP)



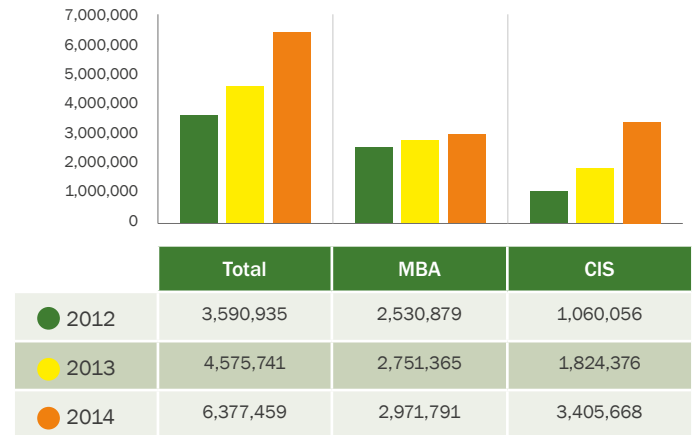
Time to pay-out ratio

The time to pay-out ratio indicates the percentage of claims paid within 10 days upon receipt of all required claims documents. In 2014, Mi-MBAs settled 88% of claims within 10 days.

Growth in microinsurance policies/policyholders

Total policies underwritten by mutuals reached 6.4 million in 2014 with Mi-MBAs contributing 47% and CISs 53% (Figure 9).

Figure 9. Growth in the number of policies/policyholders, 2012-2014



The combined premium value/membership contribution of the CISs and MBAs in 2014 amounted to USD 69 million (PHP 3.2 billion), of which, 62% (PHP 2 billion/USD 43 million) were contributed by Mi-MBAs and 38% (PHP 1.2 billion/USD 26 million) by CISs.

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CHALLENGES

1 Increasing market competition

2 Regulatory limitation of product offering

3 Low insurance awareness and literacy

4 Need for a more strategic approach

Conclusions and recommendations

The recommendations to sustain the growth of the mutual microinsurance sector in the Philippines are as follows:

1. For mutual organizations. The key areas that need priority attention are:

- Operations
- Marketing
- Product
- Technology
- Investment management

2. For the Philippine government.

- Intensify financial literacy campaigns
- Formalize informal risk sharing mechanisms
- Monitor the performance of mutuals
- Formulate regulatory provisions for mutuals to merge
- Develop mandatory accounting standards for mutuals
- Explore feasibility for mutuals to offer non-life products

3. For ICMIF and other donors.

- Capacity development of mutual organizations
- Improving Mi-MBAs' technology
- Piloting technology-based innovations
- Review and testing of products
- Microinsurance awareness/education activities
- Promoting new MBAs
- Testing new marketing distribution systems



The International Cooperative and Mutual Insurance Federation (ICMIF) is a best practice organization committed to giving its members from around the world a competitive advantage. ICMIF helps to grow its mutual and cooperative insurance member organizations by sharing strategies and the latest market intelligence.

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