

Microinsurance in Asia: Supply-side perspectives

Philippines Country Analysis

April 2020

Based on findings from the Milliman research report:
Asia Microinsurance Supply-side Study



With growing interest in microinsurance in the region, we are pleased to present our first Microinsurance Supply-side Study of Asia in 2019 to gather the perspectives of the insurance industry regarding the importance of microinsurance, current practices and the enabling environment. We carried out this study primarily through a questionnaire survey, with responses from regulated insurers providing microinsurance in five countries, namely Bangladesh, China, India, Indonesia, and the Philippines. This country analysis highlights some key-takeaways based on observations from the Philippines.

Twenty-seven insurers and microinsurance providers participated in the survey, of which over 90% (twenty-five) currently sold microinsurance in the Philippines insurance market. Three of the top 10 providers (5 top life insurers and 5 top non-life insurers) by total insurance market share in the Philippines participated in the study.

The following is a summary of the criteria used to define “microinsurance” in this study:

1. Intentionally developed for low-income people
2. Government is not the sole risk carrier
3. The program is based on insurance principles implemented by regulated insurers
4. Goal of profitability or sustainability
5. Modest premium levels / affordability

Current practices: Taking a closer look at insurers' microinsurance programs and how they implement them

How surveyed insurers and providers reported the proportion of in-force premium from microinsurance against their total insurance business portfolio



The Philippines microinsurance industry has the highest proportion of in-force premiums from microinsurance in their entire portfolio in comparison to other countries involved in the study. More than half of those surveyed indicated that they have greater than 20% of in-force premiums from microinsurance. Unsurprisingly, this finding coincides with the tremendous outreach observed in the microinsurance industry in the Philippines where a coverage of **44.5%**¹ of the low/middle income population was reported—the highest recorded anywhere in the world.

Types of microinsurance products insurers currently and planned to offer

■ Currently offer ■ Plan to offer



44.5%
Microinsurance coverage level to the low/middle income population

4/25
Proportion of insurers who develop products specifically to address climate risks of low-income people

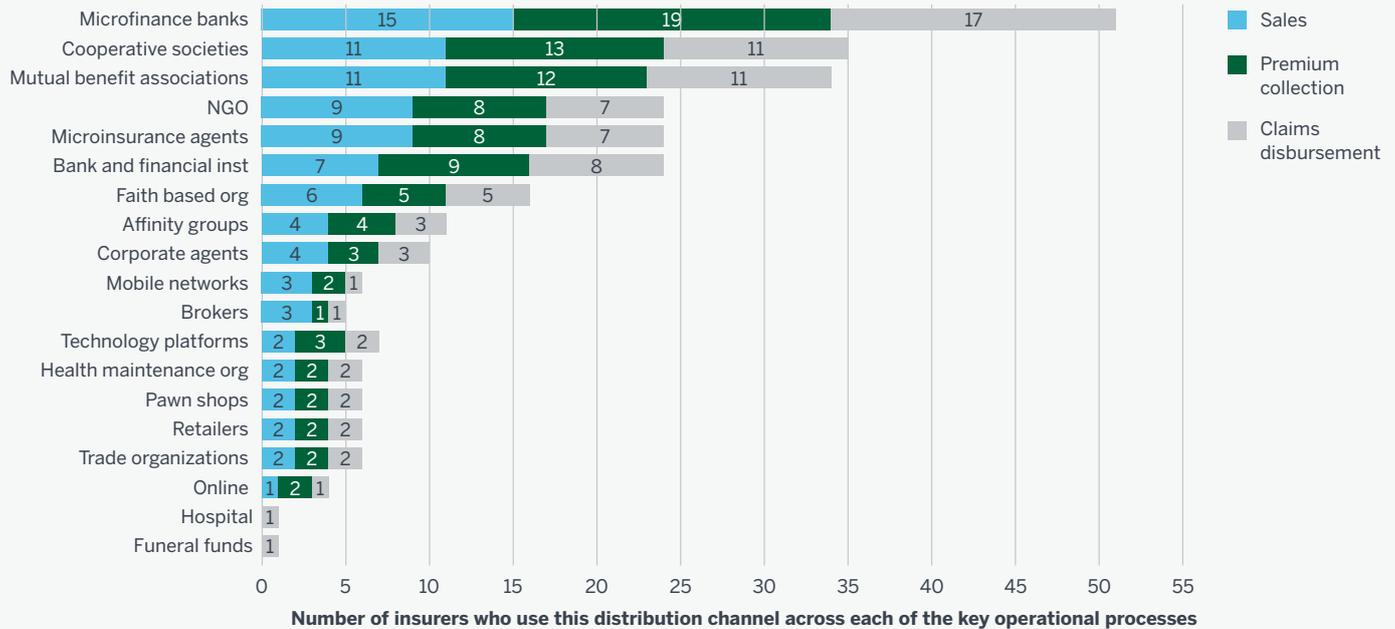
The most prevalent types of microinsurance products insurers currently and planned to offer remain credit-life products, followed by disability and term life cover.

With a historically solid microfinance industry in the Philippines, it is of no surprise that credit-life products are found to be the top product offered by the majority of respondents. Credit-life or loan insurance is typically imposed on borrowers as a compulsory arrangement in order to safeguard the microfinance institution (MFI) of their financial viability in the event of the death of the borrower. Whilst life coverage is important, there is a great need to evolve beyond basic life products, particularly for markets like Philippines where maturity is observed in microinsurance development. As the market matures, a more diverse range of product offerings is expected to appear in servicing broader customer needs and diversifying insurers' risk portfolio. Yet in the case of the Philippines, the range of products offered remains analogous. A key reason which life products have largely dominated the market is because of the tax-exempt status for mutual benefit associations (MBAs). **On the other hand, general taxation for the non-life sector is one of the highest in the southeast Asian region which is hampering market development in non-life products.**^{2,3} Such phenomena also highlight the need for insurers to promote the need for product evolution and risk diversification with regulators and governing bodies particularly when tax rules are impeding market development. For the microinsurance market to evolve, there is a need to move towards complex products such as health and agricultural insurance which are both considered highly relevant to the low-income population.

Numbers refer to the number of insurers who currently offer / plan to offer this type of product.

1. 44.5% is calculated = 40.0 million lives covered / 89.9 million people classified as lower/ middle income (as at Q1 2019). Sources of the numbers from: http://www.bsp.gov.ph/downloads/Publications/2019/FIDashboard_1Q2019.pdf and <https://www.pewresearch.org/global/interactives/global-population-by-income/>
2. In the Philippines, MBAs and cooperative microinsurers are only allowed to write life products, with the exception of CLIMBS, a cooperative microinsurer and fully regulated by the IC as an insurance company, which also writes non-life products. This has forced MBAs to go to commercial insurers for non-life covers. This also means that MBAs play a dual role as insurers for life products, and distributors for non-life covers. For particularly risky life products, they may also go to the commercial sector.
3. University of Cambridge (2019): Mutual microinsurance and the Sustainable Development Goals (www.cisl.cam.ac.uk/resources/publication-pdfs/mutual-microinsurance-sustainable-development.pdf)

The distribution channels insurers used for sales, premium collection, and claims payment



Microfinance banks, co-operative societies, MBAs and NGOs are the top distribution channels in Philippines.

The mutual sector made tremendous contributions to the growth of the microinsurance sector in the Philippines. The Insurance Commission (IC) introduced microinsurance MBAs (Mi-MBAs) as a new tier of microinsurance providers in 2006, which eventually became the key driver of microinsurance development. This served to formalize many MFIs and NGOs which had previously been operating informally. As a result, we see these channels emerging to be the top distribution outlets in the Philippines. Whilst pawnshop as a channel did not emerge as the top channel (skewed by number of insurers using this channel vs. amount in the portfolio), a significant amount of microinsurance products are sold through the vast pawnshop network of Cebuana Lhuillier (“Cebuana”). As of 2017, 30%⁴ of Filipinos covered by microinsurance sold through Cebuana, its unique selling point is its dominant position as a convenient local hub. However, the need on diversification of distribution channel for insurers should be noted in order to not become over reliant on one distribution channel. In the case of Cebuana, high commission fees are observed with fierce competition between insurers in obtaining business from this channel.

How insurers are applying technology in their microinsurance processes



Despite the success of microinsurance in the Philippines, microinsurance providers continue to be heavily reliant on physical forms throughout all key processes. This is somewhat surprising given the high mobile phone penetration rate in the Philippines, whereby as at 2019, 65% of the population owned a smartphone and a further 24% owned feature phones, in line with the emerging economy median of 78%. A driving factor is the use of Cebuana and other money remittance networks in this market, which has been a big competitor of digital money. MBAs also suffer from resource constraints with regards to optimizing or upgrading their management information system automation⁵. This problem is exacerbated by their restricted capacity to spend only up to a maximum 20% of their gross contributions for administrative and operating expenses. Despite the lack of technology use in microinsurance processes, the Philippines has the highest microinsurance outreach (percentage of the population covered) globally. This indicates that technology is not necessarily essential to develop a successful microinsurance model, but rather a valuable tool to help enhance the delivery and management of microinsurance.

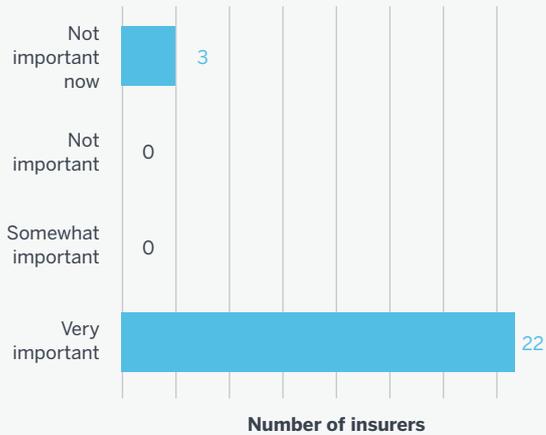
Numbers refer to the number of insurers who have adopted this technology across each of the key operational processes.

4. Cebuana (2018): Eight million Filipinos now covered by Cebuana Lhuillier microinsurance <https://www.cebuanalhuillier.com/eight-million-filipinos-now-covered-cebuana-lhuillier-microinsurance/>

5. Discussion with Junjay Perez, Executive Director of RIMANSI

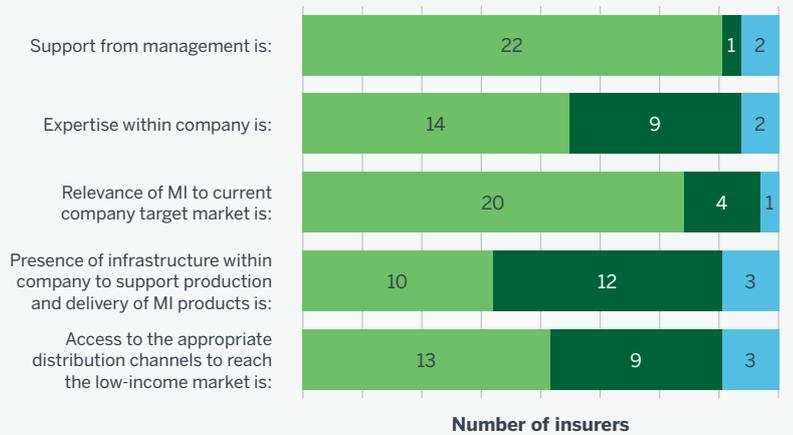
Perspectives: Insurers' observations on their institutions and the microinsurance market

How insurers rank the importance of selling microinsurance within their companies



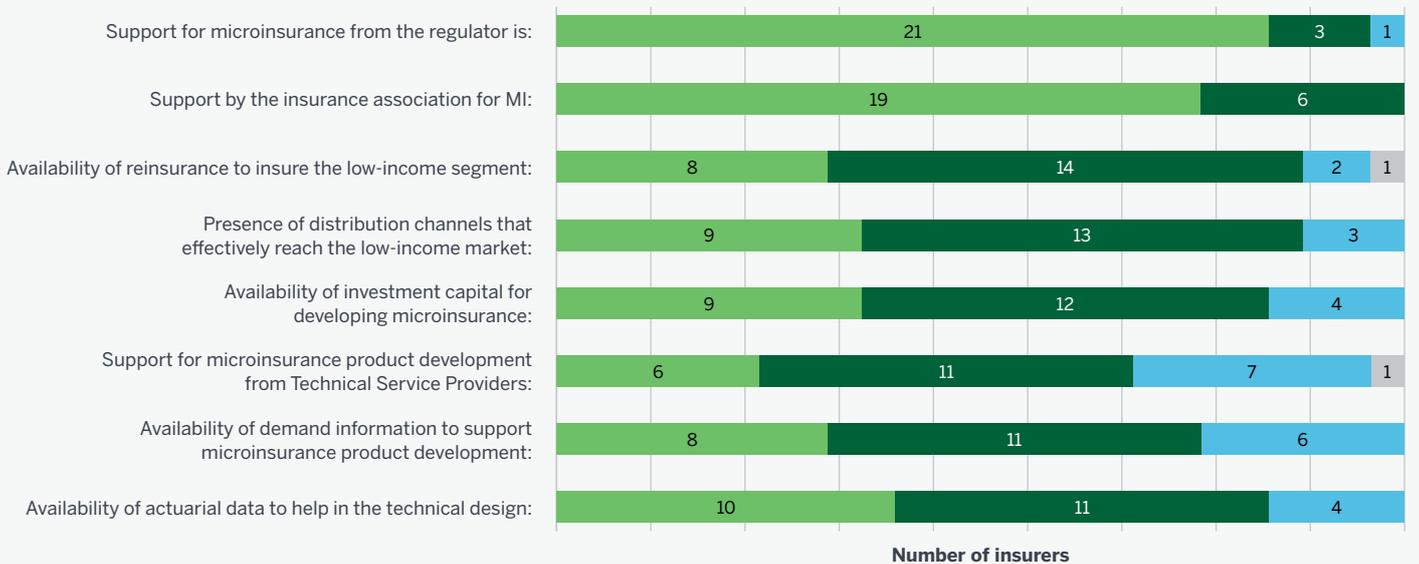
The players in the Philippines led the survey with strong views on the importance of microinsurance with nearly 90% of microinsurance provider-respondents rated offering microinsurance as "very important." MBA respondents, whose key mandate is placed on selling microinsurance, made up over 60% of responses received. Unsurprisingly, this finding coincides with the immense outreach observed in the microinsurance industry in the Philippines.

The opportunities and challenges insurers faced regarding microinsurance within their companies



Philippines takes the lead in the highest level of internal support observed across the five countries. It was clear that insurance players in the market received strong support from management in developing microinsurance, likely because microinsurance is found to have high levels of relevance to the company's target market. The presence of infrastructure within companies to support the delivery of microinsurance products was perceived to be lacking, in comparison. This could potentially be explained by the resource constraints faced by MBAs as mentioned in the use of technology in microinsurance processes. Such observations suggest that there is a gap in the market where microinsurance providers can become early movers with a competitive advantage if good technological infrastructure can be built.

Insurers' views on the supporting environment for microinsurance in the Philippines



The Philippines led the survey responses with the highest level of perceived support across all pillars of success, a reflection of the strong operating environment in this country for microinsurance providers. Insurers believe that they are highly supported through facilitative regulations in microinsurance, driven particularly by the Insurance Commission (IC) of Philippines. Support from the insurance association for microinsurance was also given high ranking. On the contrary, the presence of technical service providers (TSPs) was perceived to be minimal, likely due to the absence of competition amongst mobile network operator (MNO) distribution channels in the Philippines' MNO duopoly market; TSPs in microinsurance often partner with companies operating in the mobile telecommunications sector.

Key contacts



David Kong, FSA, FSAS
 Consulting Actuary
 Singapore
 +65 6327 2306
david.kong@milliman.com



Indira Gopalakrishna
 Microinsurance Specialist – Asia Pacific
 Singapore
 +65 9035 4271
indira.gopalakrishna@milliman.com