Index-based Insurance Initiatives in the Philippines: Policy and Regulatory Challenges

Munich Climate Insurance Initiative (MCII) Workshop

“Regulatory aspects for Microinsurance and Index Products in the Caribbean“

Mexico City, 9th – 10th November 2014

Dante Oliver Portula
Senior Finance Adviser
GIZ RFPI Asia
Outline

A. Current Index Insurance Products
B. Laws on Climate and Disaster Risks
C. Policy and Regulatory Gaps and Challenges
D. Way Forward
E. Role of GIZ
A. Current Index Insurance Products in the Philippines

1. NatCat Insurance for loan portfolio (Excess Wind speed, Excess Rain fall)

<table>
<thead>
<tr>
<th>Wind speed and Rainfall triggers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipality</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Payout</td>
</tr>
</tbody>
</table>

a. Developed through PPP between GIZ-MIPSS and Munich Re (2009-2012)
b. First underwritten and offered nationwide by CLIMBS, the biggest coop insurer in the Philippines
c. Now being underwritten nationwide by BAC insurance company, an affiliate of Malayan, the biggest general insurance company in the Philippines
d. DHI, an independent firm in Singapore, manages and monitors weather data and issues web-based triggers
A. Current Index Insurance Products in the Philippines

2. Weather Index Insurance for rice farmers (Excess Rainfall, using rain gauge stations)
   a. Developed by MicroEnsure, a microinsurance broker.
   b. Being underwritten by various commercial insurance companies nationwide
   c. Using agriculture input suppliers as among the distribution channels.

3. Area-based Yield Index (ARBY) for Rice
   a. Product was developed with assistance from GIZ-EFOS project (2010-2012)
   b. Being pilot tested in 10 municipalities with government PCIC as underwriter.
   c. Now being enhanced into a Remote Sensing-powered ARBY, under assistance of GIZ RFPI RIICE project

EFOS – Enhancement for Food Security
PCIC – Philippine Crop Insurance Corp.
RFPI – Regulatory Framework promotion of Pro-poor Insurance markets in Asia
RIICE – Remote sensing-based Information and Insurance for Crops in emerging Economies
B. Laws on Climate and Disaster Risks

- Republic Act No. 10174, “Climate Change Act of 2009”, as amended in 2012 integrating **People’s Survival Fund**, which could be used among others “as a guarantee for risk insurance needs for farmers, agriculture workers and other stakeholders”

- Republic Act No. 10121 “Philippine Disaster Risk Reduction and Management Act of 2010” (**Local Disaster Risk Reduction and Management Fund** or **Calamity Fund**)

- Republic Act No. 9520, “Philippine Cooperative Code of 2008” (established the **Community Development Fund** which “shall be used for projects or activities that will benefit the community where the cooperative operates”)

C. Policy and Regulatory Gaps and Challenges

- No specific definition on index-based/parametric insurance in the Philippine Insurance Code.
- The nearest applicable term in the Code is Property insurance.
- On crop insurance, the government sees it as a social service and has been subsidizing and self-regulating a crop insurance program for the past 32 years through PCIC.
- PCIC enjoys government subsidies in premium and in operational expenses, and its products are tax exempt.
- It is difficult (or impossible) for private insurance providers to compete in this market space currently occupied by PCIC.
- The role of subsidy vis-à-vis incentivizing the private sector to sustainably participate in this market.
C. Policy and Regulatory Gaps and Challenges

- Absence of government-regulated Centralized source of data such as on weather, yield, cropping calendars.
- No international guidance/experience that exist about Policy and Regulatory Framework on index/parametric insurance.
- Roles of Public and Private Partners. Example, how to maximize government subsidies with private sector participation.
- Propriety of technology and designed product.
- Effective and functional Adaptation, Rehabilitation and RTM link-up within the National Disaster Risk Reduction and Management Plan.
D. Way Forward

“No single institution can do it by itself”

Private Sector (Business Opportunities)
Public Sector (Public Service)
Sustainable solution
Development Agencies (Capacity Development)
D. Way Forward

Develop an Index/Parametric Insurance Policy and Regulatory Framework which would set clear guidelines for the following:

- Definition of Index/Parametric Insurance
- Insurers and distribution channels
- Access to data (and management) from government entities such as PAGASA, DA, DOST-Project NOAH, LGUs, NDRRMC, for product development
- Access and use of the People’s Survival Fund for RTMs
- RTM schemes - catastrophic pools, reinsurance
- Public-private sectors partnership
- Role of government and social protection programs such as PCIC
- Alternative Dispute Resolution (ADR) mechanism
- Financial Literacy
- Consumer protection
E. Role of giz

Regulatory Framework Promotion for Pro-Poor Insurance Markets in Asia (RFPI-Asia)

Expected Outcomes

• Insurance supervisors in Asia have increased awareness on the importance of specific microinsurance policies and regulations.
• Additional guidelines on inclusive insurance from SSBs.
• Capacities of the Asian insurance supervisors on microinsurance are improved.
• Capacities of the Asian insurance supervisors in thematic policies and regulations are improved.
• New and innovative business models on microinsurance are developed.
Thank you!

www.inclusiveinsuranceasia.com