

MEFIN Financial Literacy Campaign Kit (FLiCK)

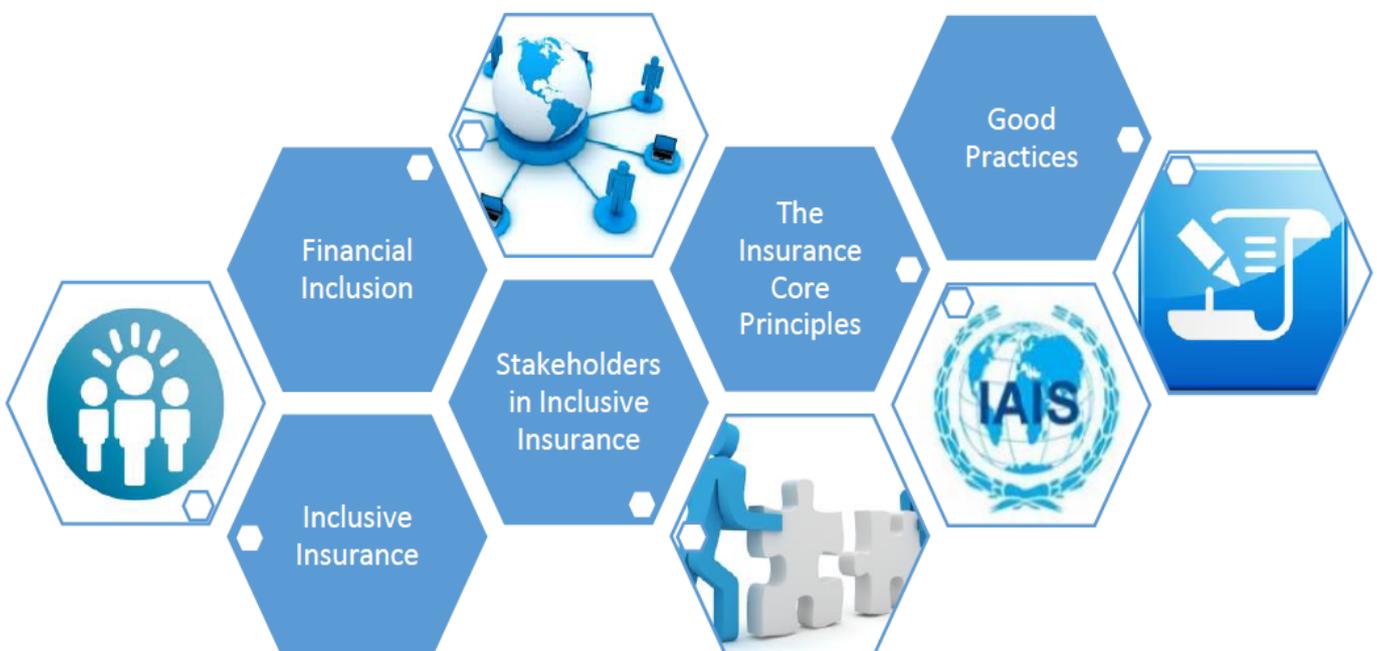


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Note to the User:

Financial Literacy is seen as the instrument that could help address the lack of understanding, particularly by the men and women in the low-income sector, of financial products and services that could help them uplift their lives. By enabling the low-income sector to grasp how and what financial services and products could help ease their plight, it improves their chances of securing a better future for them. As such, Financial Literacy is indispensable component when it comes to over-all financial inclusion strategies, including that of Inclusive Insurance.

It is against this background that this **MEFIN Financial Literacy Campaign Kit (FLiCK)** was developed. Essentially, it is ready-reference material that provides the basis, in terms of principles, elements, and actual best practices, for developing regulations and policies that are responsive for the promotion of inclusive insurance and is envisaged to be used by the following:

- *Middle to senior level personnel of insurance regulatory and supervisory bodies in MEFIN-member countries*
- *Middle to senior level personnel of central banks, revenue authorities, and Aother public/government bodies with regulatory or oversight functions that insurance regulators and supervisors need to work closely with in the development of a regulatory framework for inclusive insurance/microinsurance.*
- *National and local government agencies, departments/ministries, and similar organizations that insurance regulators and supervisors need to network with for the advancement of inclusive insurance/microinsurance.*

And in-line with the Financial Literacy efforts of the MEFIN-member countries, the campaign kit can likewise be used to capacitate other stakeholders to enable them to support the advancement of inclusive insurance. These stakeholders include: *insurers, intermediaries, support institutions, donors & development partners, and existing/potentials clients.* Thus a **holistic approach**, as far as financial literacy is concerned, is undertaken thereby contributing to a more dynamic insurance regulatory environment.

The FLiCK is divided into four (4) modules. Module 1 discusses the salient aspects of Financial Inclusion and Inclusive insurance, including their important principles and components. Module 2 presents the MEFIN as a

platform for learning and exchanges to advance inclusive insurance in its member countries. Module 3 shows and defines the various stakeholders and their roles, responsibilities in inclusive insurance while Module 4 showcases some good practices of Indonesia and the Philippines which the participants may use as benchmark for their own efforts in advancing inclusive insurance.

Given its multi-faceted use for training and capacity building, the FLiCK's modular design also allows it to have a "pull-out" feature which would be very useful for training/capacitating specific stakeholders groups. To illustrate, if target participants come from regulatory bodies then the whole kit of modules 1 to 4 shall be used as its contents are very important in relation to the performance of their jobs and responsibilities. However, if the audience are potential clients and LGUs, then it may only be necessary to use portions of modules 1 and 3 as the main interests may be to know what products and services would be appropriate for them and also knowing their roles in promoting inclusive insurance. As such, the campaign kit offers flexibility in its use, depending on the audience.

Module I:

Financial Inclusion and Inclusive Insurance

This module provides an overview on the concept of Financial Inclusion and its importance to achieve inclusive growth. It also introduces Inclusive Insurance - its characteristics, product types, and the channels by which they are distributed. A special aspect of this module is the introduction of the G20 Principles for Financial Inclusion and how it can help in creating innovative approaches that supports the growth and development of an inclusive insurance market.

This module is divided into 4 sections:

- Section 1 Financial Inclusion
- Section 2 Inclusive Insurance
- Section 3 Insurance Core Principles (ICPs) and its Applications in Inclusive Insurance
- Section 4 Interagency Cooperation: A Key Approach to Integrating Insurance in the Financial Inclusion Strategy

Section 1 Financial Inclusion

Definition and Characteristics

“Financial inclusion is defined as a state wherein all individuals, even the ones belonging to the poorer sector of the nation, have access to useful, high-quality, and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way¹.

Financial inclusion is recognized as an important pillar for global development. As a global agenda, many countries are using it as an important part of their strategies for inclusive growth. Financial inclusion plays an important role in poverty alleviation as it provides men and women in the low income and informal sectors of the economy access to a wide variety of financial products and services that will help them build their assets over time and provide them protection against shocks and other unfortunate events. It likewise opens up their integration into the formal economy.

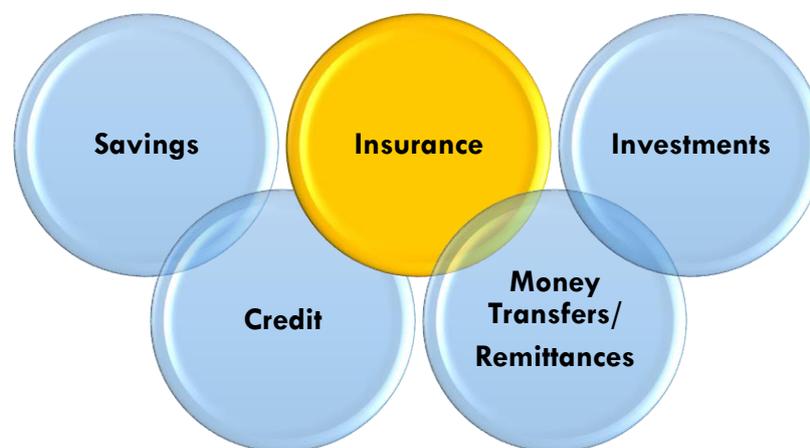


Figure 1 Financial Inclusion Products

Such has been the importance of financial inclusion that over the past few years, the initiative for strengthened financial inclusivity was adopted by the global community. In fact, financial Inclusion is considered a sailboat to seven (7) of the 17 Sustainable Development Goals, particularly 1, 3, 5, 10, 11, 13 and 16.

¹ <http://www.worldbank.org/en/topic/financialinclusion/overview>



Figure 2 The 17 Sustainable Development Goals

Financial Inclusion in Asia: Status and Challenges

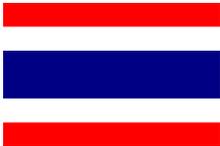
This heightened interest in financial inclusion is not misplaced, as countries prioritize inclusive growth and development in their policy agendas. In general, inclusive finance is crucial to sustain economic and social development. It is also expected to lead to greater financial stability and growth. Perhaps because of these reasons many Asian countries have either implemented initiatives or set specific targets to promote financial inclusion².

In 2014, the Asian Development Bank Institute (ADBI) conducted a survey on 5 major Asian countries – the People’s Republic of China (PRC), Indonesia, India, the Philippines, and Thailand – in order to determine their progress in financial inclusion. The survey results, which were used in the publication “Financial Inclusion in Asia: Country Surveys”, revealed that while each country used different approaches and priorities to pursue financial inclusion, it was clear that progress was achieved over the last 10 years. Below is a summary of some major initiatives for each country in the survey to achieve financial inclusion:

² Aladdin Rillo, 2014: Overview of Financial Inclusion in Asia,” Financial Inclusion in Asia Country Surveys Asian Development Bank Institute (ADBI)

Table 1.1. Major Initiatives of Countries to Achieve Financial Inclusion

Country	Approach/Measure Used	Description	Results/Examples
<p>China</p> 	<p>Deeper Reforms in the Rural Financial System in 2005 that allowed for competition</p>	<p>Reforms in the rural banking system once dominated by state-owned banks allowed entry of new players (e.g. agro-related banks, village township banks, postal savings banks) to expand financial services to rural areas.</p>	<ul style="list-style-type: none"> • The creation of some innovative products and services such as the SME Board, ChiNext (Growth Enterprise Board) • Two innovative funding markets for small and medium sized enterprises (SMEs) which are unique to China.
<p>Indonesia</p> 	<ul style="list-style-type: none"> • Initiatives on mobile banking and microfinance • Recognizing the important role of the private sector and involving it in financial inclusion initiatives 	<p>Despite its challenging geography and challenging regulatory environment, was able to launch successful key programs using mobile banking and microfinance initiatives that were able to reach individuals and firms all over the country.</p>	<ul style="list-style-type: none"> • TabunganKu (My Savings) • Peoples' Business Credit • Bank Rakyat Indonesia, a private bank, came up with practical projects that were able to reach previously unbanked individuals and firms.
<p>India</p> 	<ul style="list-style-type: none"> • Upon the behest of the Reserve Bank of India and the Government of India in Seriously pursued a more focused, bank-centric strategy in 2004 	<p>The development of some programs which were very unique to the Indian situation in order to widen access to financial services.</p>	<ul style="list-style-type: none"> • The use of agent or business correspondent banking • A unique identification project using biometrics to establish identities thus enabling unbanked individuals to access credit and other banking services

Country	Approach/Measure Used	Description	Results/Examples
Philippines 	<ul style="list-style-type: none"> • Combination of good policy environment and strong market support • Use of technological innovations • Market-oriented approach 	<p>As one of the pioneers of mobile banking, technological innovations supported by good business models and government policies are harnessed to deliver low-cost and efficient financial services to the poor.</p>	<ul style="list-style-type: none"> • This market-oriented approach has led better and more diversified microfinance services such as micro-deposits and microinsurance.
Thailand 	<ul style="list-style-type: none"> • Government as the prime mover for achieving financial inclusion 	<p>A unique approach where the pursuit inclusive finance is primarily driven by government leading to significant results.</p>	<ul style="list-style-type: none"> • Thailand's Village Fund is now recognized as one of the largest microfinance institutions in the world • It serves as a model for other countries to develop successful microfinance programs.

Despite these achievements, financial inclusion in Asia remains challenging. Large disparities in the use of financial services persist. The proportion of households with access to formal bank accounts varies widely across countries. In-country disparities can even be larger when access to financial services is examined within population segments and across income levels. For example, in Thailand, where formal account penetration is high, the poorest 40% of households are much less likely to have an account than the richest 60%. Similarly, in India, only 21% of adults from the poorest quintile have a formal account compared to 56% from the richest quintile. Evidence suggests that higher exclusion is associated with higher income inequality and with vulnerable groups (young, uneducated, unemployed, and the poor in rural areas). Hence, in countries where rising population and income inequality are still concerns (like in the PRC, India, and Indonesia),

providing an environment that better enables access financial services can be challenging.³

Based on the ADBI study, some of the possible reasons for these disparities are the following:

- **Differences in financial sector developments across countries**

Although the existing evidence is not yet conclusive, so far it suggests that both financial depth and efficiency are positively related to financial inclusion (World Bank 2014). An efficient and deep financial sector can improve competition, allow more suppliers of financial services to come in, and establish the necessary financial and lending infrastructure. Taking the case of the PRC, while efforts to promote financial inclusion started in the 1950's it was only after deeper banking reforms were introduced in 2005 were improvements to accessing finance were achieved. Prior to that, state-owned and mono-banking system prevented greater financial inclusion. Thus, efficiency in the financial system is critical if financial inclusion is to be achieved.

- **Access to Financial Structure**

The study revealed that in India, one of the reasons given by the unbanked for limited use of financial services is the absence of technological infrastructure to access banks accounts. The same is true for its MSMEs. Likewise, country specific barriers to inclusion are relevant. The Philippines and Indonesia have made great strides in increasing the supply of financial infrastructure but their archipelagic nature still poses as a barrier to financial access.

- **Country Specific Barriers**

Delivery models vary due to the existence of market and regulatory constraints as well as non-market barriers. Only a few countries are working to implement modern payment and credit information systems and lending technology to expand the supply of financial services. Among them are:

- PRC – the establishment of the Credit Reference Center in 2006 as a provider of credit information to individuals and enterprises

³ Rillo A. p 3

- *Philippines* – efforts are underway to establish a comprehensive credit information system to include information about clients from all types of financial institutions including microfinance institutions.

Likewise, regulatory issues are still among the challenges faced by Asian countries to improve financial access. Among those revealed by the study are regulatory hurdles for microfinance institutions in Thailand, monitoring of performance of microfinance institutions in the Philippines, and identification regulations for the unbanked in Indonesia.

Improved financial literacy and consumer protection are also important in increasing demand for financial services and some countries have included this as a part of the over-all financial inclusion strategy. The Reserve Bank of India, for example, formulated the National Strategy on Financial Education. In the case of the Philippines, its' Bangko Sentral ng Pilipinas established a unit which is dedicated to address all financial inclusion strategies including financial education and literacy – the first in the world.

The study recommends that for financial inclusion to be successful in Asia, three (3) areas should be looked into:

1. **The quality of regulatory policies.** While key policies have been put in place, their effects on financial inclusion are not clear. Evidence is limited on which policies work best. They need to be verified to ensure that policies address the right problems of financial access in the country.
2. **Have a positive enabling environment for promoting financial inclusion.** Policies that support financial inclusion have to be closely connected with the pursuit of macroeconomic stability. It is also important that countries continue to address the impediments that hamper access to financial services, including legal, regulatory, and market barriers.
3. **Greater financial inclusion is only possible if undertaken responsibly.** While inclusion is about increasing the capability to use financial services, it is crucial that those who are directly affected are financially literate and capable.

Section 2 Inclusive Insurance

To contextualize the definition of inclusive insurance or microinsurance, it would be useful to define first insurance and social insurance.

Insurance is a promise of compensation for specific potential losses in exchange for a periodic payment. Insurance is designed to protect the financial well-being of an individual against possible future losses or damages.

Social insurance, meanwhile, lessens risks by providing support in the event of illness, disability, work injury, maternity, old age, and death. It is an insurance program provided or mandated by the government to give financial assistance to people in need, such as those who are sick, disabled, or elderly.

Inclusive insurance or microinsurance is also insurance as we know it. When people buy insurance cover, they pay a certain amount of their premiums (or dues/contributions in the case of Mutual Benefit Associations or cooperatives). In return, they get the amounts or benefits indicated in the inclusive insurance contract in case of unexpected events such as illness, death, or calamities. Inclusive insurance provides small insurance coverage for the needs of the low-income sector at affordable costs.

To serve the low-income groups better, inclusive insurance must be: responsive to the priority needs of men and women for risk protection, easy to understand, and affordable.

In addition, inclusive insurance is appropriate for the low-income market when it comes to cost, terms, coverage, and delivery mechanisms. It is different from traditional insurance in that it focuses on low-income people and the risks that they face. It intends to offer products to the low-income sector that cover small-scale assets at affordable premiums by keeping transaction costs low.

Why the low-income sector? Low-income households are more severely affected and they often lack savings and access to other social safety mechanisms. Inclusive insurance is one of the risk management tools that allows the transfer of some of these risks from low-income households to insurance and re-insurance markets; this, in turn, can result in lower recovery costs for those affected.

It can be delivered through a variety of different channels. Some examples of those channels are credit unions and other types of microfinance institutions and community-based schemes.

Table 2.1 Comparison Between Traditional Insurance and Inclusive Insurance

Trait	Traditional Insurance	Inclusive Insurance
Target Market	Middle- to high-income sectors	Low-income and informal sectors
Delivery Channels	Sold through individual licensed agents or brokers	Sold through licensed non-traditional agents such as cooperatives, NGOs, rural banks, and other aggregators
Underwriting Requirements	Complex (may include medical examinations or tests, etc.)	Simple, easy to understand, minimal
Premium	No limitations on premiums payments	Premiums are very affordable
Mode of Premium Payment	Fixed or regularly collected premium payments (annual, semi-annual, quarterly, monthly)	Flexible, cash-flow based premium payments
Policies	Many provisos and conditions	Few provisions and conditions
Claims settlement	Claims payment may take a number of days	Claims payment is fast

Providers of Inclusive Insurance Products

Inclusive insurance products shall only be provided by entities registered and licensed by appropriate government regulatory bodies. These entities include, but are not limited, to any of the following:

- *Life Insurance Entities* – these are entities licensed to provide insurance on human lives and cover death, disability, and living benefits, among others.
- *Non-life Insurance Entities* – these entities are licensed to provide insurance products covering vehicle, house, property and agriculture-related assets, among others.

In many jurisdictions, both insurance entities can also offer products covering health, death, accident, and burial.

- *Mutual Benefit Associations (MBAs)* – These are non-stock, non-profit organizations licensed to provide mainly life insurance products to its members.
- *Cooperative Insurance Societies* – these are entities licensed to provide insurance coverage (life and/or non-life) to its members.
- *Pre-Need Companies* – these are corporations authorized/licensed to sell pre-need plans (i.e. memorial or burial benefits, pension and education plans).
- *Health Maintenance Organizations (HMOs)* – legally organized entities that arrange for coverage or designated managed care services needed by its plan holders for fixed membership coverage fees and for a specific period of time.

In addition, ***inclusive insurance agents*** and ***brokers*** are intermediaries who can sell inclusive insurance products. Inclusive insurance agents are licensed to obtain or solicit inclusive insurance on behalf a duly licensed insurance entity.

Inclusive insurance brokers are individual or entities that have been licensed to solicit, negotiate, or procure any inclusive insurance product from contract on behalf of clients.

Clients can avail themselves of inclusive insurance products from the institutions listed above or through licensed inclusive insurance agents and brokers.

Inclusive Insurance Products

Life Inclusive Insurance Products

Following are the life inclusive insurance products currently available in the market:

A. Basic Policies

1. Group Life Insurance
2. Credit Life Insurance
3. Personal Accident

B. Additional Benefits to Basic Life Insurance Policies

1. *Accidental Death and Dismemberment (AD & D policy)*
2. *Accidental Death, Dismemberment and Disability (ADD& D)*
3. *Waiver of Premium Due to Disability (WPD)*
4. *Hospital Income Benefit*
5. *Medical Income Benefit*
6. *Motor Vehicle Accidental Hospitalization Benefit*
7. *Burial Benefit*

Non-Life Inclusive Insurance Products

- *Individual or Group Personal Accident*
- *Property Insurance*
- *Accidental Burial/Burial Assistance*
- *Property Credit Insurance*

Inclusive insurance products are similar to traditional products that covers life, disability, health, properties, liabilities, savings, investments. What makes inclusive insurance distinct from traditional ones are its characteristics.

Characteristics of an Inclusive Insurance Contract

- Clearly states the face amount, benefits, and terms of the insurance coverage;
- It is easily understood by the insured and printed in a language that the he/she understands;
- Has simple documentation requirements;
- Has contributions/premium collections that coincide with the cash flow of the insured and are not onerous for the insured;

- Claims are paid in a very few number of days. For example in the Philippines and Indonesia, it should not be more than ten (10) working days.

InfoBox 1 The Cost of Inclusive Insurance: Philippines

In general, inclusive insurance products are very affordable. In the Philippines, the amount of premium or contributions per inclusive insurance policy can range from less than Php 1.00 to 39.00 (US\$ 0.0194 to 0.759) per day at current minimum wage rate (Php 491.00). The cost of premium per day can be equivalent to the cost of one piece of candy or one text message. This means that the premium on an inclusive insurance product can be as low as Php 30.00 (US\$ 0.584) per month.

In any case, the amount of inclusive insurance premiums (or dues or contributions) computed on a daily basis should not exceed seven point five percent (7.5%) of the current daily minimum wage for non-agricultural workers in Metro Manila.

The maximum sum of guaranteed benefits for inclusive insurance products is 1,000 times the daily wage of non-agricultural products in Metro Manila.

Channels for Delivery/Inclusive Insurance Models

It is important that delivery mechanisms for inclusive insurance schemes are appropriate to make these products more accessible to low-income households. That's why it is essential that insurance or insurance-like activities should be formalized.

The practice of informal insurance by membership-based organizations is an indicator of the existing demand for insurance protection. However, this practice also poses risks to consumer protection and financial stability as informal scheme is not based on sound actuarial and insurance core principles. Resulting to high likelihood of insolvency and/or claims non-payment. By formalizing insurance and similar activities, the risks of financial instability and reputational risks on the part of the insurer are reduced or eliminated. It also enhances consumer protection which is an important aspect in inclusive insurance.

The following are the different delivery models of microinsurance. These models offer ways to lower transaction costs and address unequal information access in providing insurance to the poor.

Direct Sales Model

- In this model, insurance companies directly serve the low-income clients.
- The benefit of this model is that it helps overcome control problems in the partner-agent and mutual models.
- Its' drawback though, is the limited area of distribution.

Partner-Agent Model

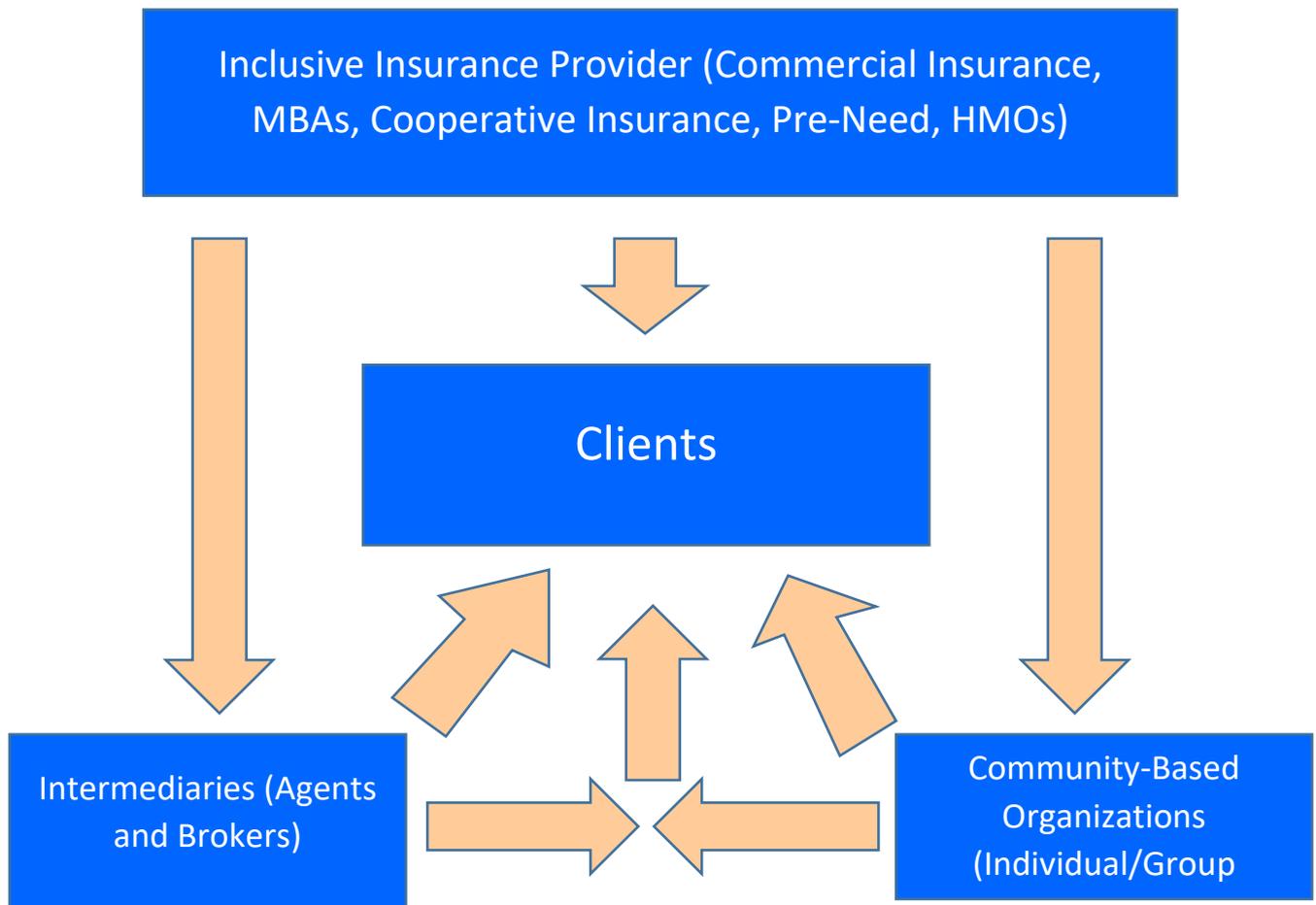
- This is the most preferred delivery model in which an established insurance entity works with a distribution channel, e.g. microfinance institutions or MFIs (rural banks, cooperatives, and NGOs including women's associations) that actively serve low-income clients.
- With this model, insurers bear the risk.
- The following are the advantages of this model:
 - The insurer is able to reach a market it cannot reach on its own.
 - MFIs can provide members with additional products and services.
 - The poor get valuable protection that otherwise would not be accessible to them.
 - Most regulatory complications are eliminated.
- However, there are also challenges with this model:
 - There is lack of trained staff to explain insurance in ways the low-income sector can easily understand.
 - The distribution channel must still be licensed as an agent.

Mutuality Model

- In this model, Mutual Benefit Associations offer insurance products and services to its members.
- Its' advantages are:
 - Helps monitor moral hazards.
 - Reduces transaction costs; and
 - Remains responsive to members' needs and interests.

- On the other hand, the challenge with this model is the provider's capacity issues, which is limited to providing insurance only to its members.

Below is an example on how inclusive insurance can be delivered:



Barriers to Inclusive Insurance

Less than fully inclusive markets mean that some barriers exist to financial access. The following are the barriers which limit the demand or supply of insurance.

Supply Side (Providers)

- *Lack of business incentive* – insurers find the market unattractive

- *Lack of information* – limited data on the low-income sector
- *Lack of expertise* – insurers have focused on the higher income sector and thus are unfamiliar on the needs of the men and women in the low-income sector.
- *Operational considerations* – high administrative costs

Demand Side (Customers)

- *Low/Irregular incomes* – most of their income is spent on the basic necessities (e.g. food, shelter) and thus disposable incomes are small.
- *Low financial literacy* – a limited or no understanding of financial services and/or risk mitigation.
- *Cultural/Religious reasons* – for example, an indifference to towards large and formal institutions as they are perceived as not being able to service their needs effectively
- *Geographical* – in far flung or remote areas, or when the distance between the customer and the provider is so far that it becomes impractical or inconvenient.

In addition, some existing regulations on insurance also pose as barriers. Examples of regulatory barriers are:

- A. Restrictions on type of distributors
- B. Restrictions on one legal form of distributors
- C. Education requirements
- D. Licensing requirements
- E. Restrictions on services that can be provided
- F. Disclosure requirements

To make markets more inclusive, it is necessary to overcome these barriers. This in turn will lead to an inclusive insurance market that effectively serves the needs of both the upper- and low-income segments of the population; one that features an appropriate balance between regulation, enhancing access to insurance markets, and protecting policy holders. In this regard, Innovation plays an important role to effect changes to products, services, channels for delivering products and services, and the product provider.

Section 3: Insurance Core Principles (ICPs) and its Application to Inclusive Insurance

All MEFIN member countries have its respective national financial inclusion strategy, and insurance is a major pillar of the strategy. The International Association of Insurance Supervisors (IAIS) which is promoting for the compliance of the ICPs “considers that the ICPs apply to insurance supervision in all jurisdictions regardless of the level of development or sophistication of the insurance markets and the type of insurance products or services being supervised. However, the ICPs, standards, and guidance also provide supervisors with the flexibility to adjust certain supervisory requirements and actions in accordance with the nature, scale and complexity of risks posed (i.e. the “proportionality principle”). This enables supervisors to tailor their approach in line with their respective jurisdiction’s supervisory objective and market context.” (Proportionality in practice: Distribution, A2ii)

The following are examples of the application on “proportionality principle” of select ICPs in the regulations of the Philippines, Indonesia, Nepal and Mongolia.

ICP #	ICP Statement	ICP Standards #	Examples of ICP Application in Inclusive Insurance regulations
ICP4: Licensing	A legal entity which intends to engage in insurance activities must be licensed. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.	4.1 A jurisdiction controls through licensing which entities are allowed to conduct insurance activities within its jurisdiction. 4.2 The insurance legislation defines the permissible legal forms of domestic insurers 4.9 A licence clearly states its scope.	Philippines: > <u>Circular Letter (CL) 9-2006</u> provides lower capital requirement in licensing of microinsurance (MI) mutual (MI-MBA). > <u>CL 6-2011</u> – guidelines on training program and licensing of MI agents simplified the requirements of MI agent licensing to only a completion of 3-day training. The MI licensing also provides license to an institution. > <u>Joint IC-CDA-SEC Memo Circular 1-2010</u> – defining Government’s Policy on Informal Insurance Activities. It provided 3 options in formalizing unauthorized insurance activities.
ICP9: Supervisory Review and Reporting	Risk-based approach to supervision that uses off-site monitoring and on-site inspections... The supervisor obtains the necessary information	9.3 The supervisor has a mechanism to check periodically that its supervisory framework pays due attention to the evolving nature,	Philippines: > <u>CL 5-2011</u> provides the Implementing Guidelines on Performance Standards for Microinsurance providers. The Performance Standards provide benchmarks to Solvency,

ICP #	ICP Statement	ICP Standards #	Examples of ICP Application in Inclusive Insurance regulations
	to conduct effective supervision of insurers and evaluate the insurance market.	scale and complexity of risks which may be posed by insurers and of risks to which insurers may be exposed.	Efficiency, Governance, Understanding, Risk Management and Outreach (SEGURO) and mandates all MI insurers to include its SEGURO performance in the annual report.
ICP13: Reinsurance and Other Forms of Transfers	Standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmes.	13.1 The supervisor requires that cedants have reinsurance and risk transfer strategies appropriate to the nature, scale and complexity of their business, and which are part of their wider underwriting and risk and capital management strategies.	Philippines: > <u>CL 2015-54, sections 33 to 40</u> – Cession of microinsurance risks to domestic and foreign companies states that reinsured portions of all microinsurance claims are payable by the reinsurer to the ceding company within ten calendar days. (This aligns to IMC 1-2010 which mandates payment of MI claims to be settled within 10 days after receipt of complete documents).
ICP17: Capital Adequacy	Capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.	17.2 The supervisor establishes regulatory capital requirements at a sufficient level so that, in adversity, an insurer's obligations to policyholders will continue to be met. 17.9 Any variations to the regulatory capital requirement imposed by the supervisor are made within a transparent framework, are appropriate to the nature, scale and complexity according to the target criteria and are only expected to be required in limited circumstances.	Philippines: > <u>IMC 9-2006</u> – created an MI-MBA (mutual), a new tier of insurance company exclusively engaged in microinsurance with lower minimum guaranty fund of Php5M, and to increase annually by 5% of gross premium collection until it reaches 12.5% of required capital for domestic life company. Regular MBA has minimum capitalization of Php125M.
ICP18: Intermediaries	The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.	18.7 The supervisor takes appropriate supervisory action against licensed insurance intermediaries, where necessary, and has powers to take action against those individuals or entities that are carrying on insurance intermediation	Philippines: > <u>Joint IC-CDA-SEC Memo Circular 1-2010</u> – defining Government's Policy on Informal Insurance Activities. It provided 3 options in formalizing unauthorized insurance activities. > <u>CL 2015-54</u> – the implementation of the Enhance MI Regulatory Framework allows licensed MI brokers and MI General Agents (new type of entity) to manage its respective network of distribution

ICP #	ICP Statement	ICP Standards #	Examples of ICP Application in Inclusive Insurance regulations
		without the necessary licence.	<p>channels such as transportation companies, couriers, telephone companies, utility companies, online selling platforms. These distribution channels will not require licensing from the insurance regulator, only registration.</p> <p>Indonesia: <u>CL #9 /SEOJK.05/2017</u>- extended the definition of MI product marketing to include business entity other than bank, marketers, and non-bank business entities; reduced the recruitment requirement of marketers to training only (not licensing); allowed the use of technology in MI contract and marketing.</p> <p>Nepal > <u>Microinsurance Directives, 2071 (2014)</u> – extended the definition of MI intermediaries to include MFIs, NGOs and other community-based organizations; simpler qualifying requirement for agents such as training, and faster and simpler procedures in settling of claims.</p>
ICP19: Conduct of Business	The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly	<p>19.1 The supervisor requires insurers and intermediaries to act with due skill, care and diligence when dealing with customers.</p> <p>19.10 The supervisor requires that insurers and intermediaries have policies and processes in place to handle complaints in a timely and fair manner.</p>	<p>Philippines: > <u>IMC 1-2010</u> – regulations for the Provision of Microinsurance Products and Services provide the quantitative and qualitative definition of MI products and services; also provides guidelines on bundling of MI products where enrolment and payment of claims are made simpler for clients.</p> <p>> <u>CLs 16 to 13, 2013</u> – provides the Guidelines for the Implementation of Alternative Dispute Resolution for Microinsurance. The ADReM system enjoins MI insurers and intermediaries to manage claims disputes efficiently.</p> <p>> <u>CL 2015-54</u> – the Implementation of the Enhance MI Regulatory Framework and circular allows licensed MI brokers and MI General Agents (new type of entity) to manage its respective network of distribution channels which will only require registration (not licensing) to the insurance regulator.</p>

ICP #	ICP Statement	ICP Standards #	Examples of ICP Application in Inclusive Insurance regulations
			<p>Indonesia: > <u>Circular Letter 23/POJK.05/2015</u> and <u>CL #9 /SEOJK.05/2017</u>- define Microinsurance Products that are Insurance Products designed to provide protection for financial risks faced by low income communities; it mandates the characteristics of MI products as simple, easy, affordable and efficient.</p> <p>Nepal > <u>Microinsurance Directives, 2071 (2014)</u>- defines MI as products designed for the low- income sector; it set the parameters of MI products such as on premium, benefit limit and commission.</p> <p>Mongolia > <u>FRC Resolution #303</u>- defines inclusive insurance emphasizing that products and contracts should be simple, affordable, up to 5 exclusions only and 10 days payment of claims.</p>
ICP20: Public Disclosure	The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position.	20.10 Subject to the nature, scale and complexity of an insurer, supervisors require insurers to produce, at least annually, audited financial statements and make them available to market participants.	<p>Philippines: > <u>IMC 1-2010</u> – regulations for the Provision of Microinsurance Products and Services require that all MI policy contracts shall bear the official logo of microinsurance so that it can easily be identified by the clients and by other parties. > <u>CLs 16 to 13, 2013</u> – provides the Guidelines for the Implementation of Alternative Dispute Resolution for Microinsurance (ADReM) requires that all MI policy contracts/certificates shall disclose about the ADReM mechanism.</p>

Section 4: Interagency Cooperation: A Key Approach to Integrating Inclusive Insurance in the Financial Inclusion Strategy

The first part of this module defines financial inclusion as a state wherein individuals, even the ones belonging to the poorer sector of the nation, have access to useful, high-quality, and affordable financial products and services that meet their needs, delivered in a responsible and sustainable way. From this definition, it can be inferred that these financial products and services are not only available but are of good quality, are within financial means, and, are actually used and beneficial to the men and women in the low-income sector. Financial products and services that are referred to are the following:

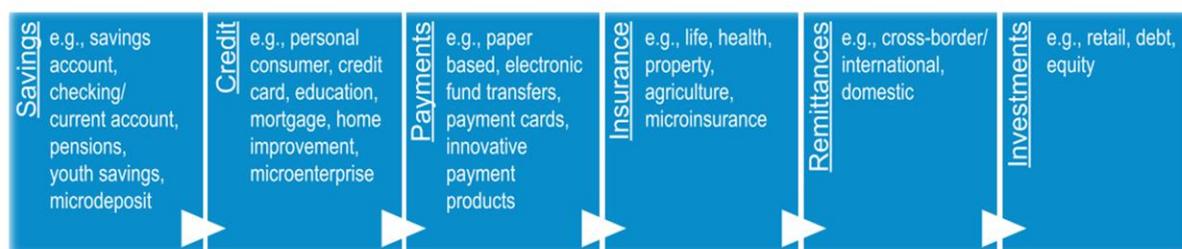


Figure 3 Financial products and services (Source: *The Philippine National Financial Strategy Booklet, 2017*)

Note that microinsurance/inclusive insurance is identified as one of these products and services. This further emphasizes the point that for financial inclusion to be really inclusive, the needs of the poorer sector in terms protection against possible future losses or damages (such as death, illness, calamities, women’s reproductive health -related risks) should also be covered. As such a strategy or road map on inclusive insurance, one that supports and is in harmony with the vision, goals, and objectives of the over-all national financial inclusion strategy, is very important.

Such a strategy, however, cannot be developed and implemented independently by the inclusive insurance sector alone. It will require close coordination, cooperation, and collaboration with all sectors that supports or interacts with the inclusive insurance industry. In the proposed **“Microinsurance Roadmap (MIR) for Emerging Countries of the APEC”** developed by GIZ RFPI Asia II Program and the MEFIN, it was cited that one of the major challenges faced by inclusive insurance markets is the

inadequate public-private sector collaboration and poor inter-agency cooperation within the government. Addressing this particular challenge is very important as this would lead to reduced duplication of efforts and initiatives, better pooling of resources, more comprehensive approach to meeting the needs of the market, and a more effective means of delivering products and services among others. In inclusive insurance, this could mean more innovative products and services, wider coverage, efficient distribution channels, and the regulations needed to support them.

In recognition of this, the MIR included the “***Strengthening interagency coordination and establishing private public sector coordination mechanism supportive of inclusive insurance***” as one of the four pillars by which the road map will be built on. Under this particular pillar, the following are the priority initiatives and activities:

Pillar 3: Establishment of inter-agency coordination and private-public sector coordination mechanism supportive of inclusive insurance

- 1. Establish inter-agency coordination mechanism** between the insurance regulatory agency and government agencies engaged in the provision of social protection schemes.
2. Articulate and **specify policies and strategies** related to the provision of **access to insurance** in the country’s **National Financial Inclusion Strategy**.
- 3. Establish roundtable dialogues** and discussions between the stakeholders in the **public and the private sector** engaged in the provision of insurance, particularly for **NatCat and agriculture insurance**.

An existing good practice under this pillar is the Philippine’s “*Developing of MI Policy Frameworks and Regulations through Multi-stakeholders’ Technical Working Groups (TWGs)*”. The Philippine government wanted to open up the market of microinsurance beyond Microinsurance Mutual Benefit Associations (MI-MBAs). As such, in 2009 the financial regulators, financial intermediaries, members of industry and other stakeholders formed Technical Working Groups (TWGs) in order to formulate a broader regulatory framework on microinsurance and the national strategies to implement the framework. The TWG is headed by the Department of Finance and the composition is as follows:

Regulators	Industry	Support Institutions
<ul style="list-style-type: none"> * Department of Finance * Insurance Commission * Central Bank * Cooperative Development Authority * Department of Trade and Industry 	<ul style="list-style-type: none"> * Associations of insurers, agents, brokers, MFIs, rural banks 	<ul style="list-style-type: none"> * International organizations (e.g GIZ, ADB)

Through the TWGs, a number of important regulations were enacted which greatly contributed to the advancement of inclusive insurance in the Philippines. One is the **Regulatory Framework for Microinsurance** (2010), which outlined the government’s policy thrusts and direction for the establishment of a policy and regulatory environment that will encourage, enhance and facilitate the safe and sound provision of microinsurance products and services by the private sector. It also identifies and promotes a system that will protect the rights and privileges of the insured. Other notable regulations which were a result of the TWGs are:

- * *Roadmap to Financial Literacy (2011)*
- * *Alternative Dispute Resolution Framework (2012)*
- * *Enhanced Microinsurance Framework (2015)*
- * *Micro Agriculture Framework (2015)*
- * *MicroHealth Framework (2016)*
- * *Distribution Channel Framework (2016)*

The TWGs were able to accomplish these through a combination of regular TWG meetings, district consultations, road shows, trainings, and information dissemination.

The Philippine experience on establishing strong inter-agency coordination, both in the public and private sectors, contributed greatly to making it one of the regional and global leaders in inclusive insurance. By involving all stakeholders in open and productive dialogues, the Philippines was able to come up with evidence-based and proportionate regulations, built trust, and created strong ownership to ensure implementation and compliance – all of which are essential in advancing inclusive insurance and making it possible to support the over-all financial inclusion strategy of the country.

Module II:

The Mutual Exchange Forum on Inclusive Insurance (MEFIN) Network

This module introduces the MEFIN Network, a platform established to facilitate the effective and efficient exchange of knowledge and best practices in inclusive insurance. Participants are given insights on how the operations and activities of the MEFIN Network contribute in advancing Inclusive Insurance among its member countries.

This module shall cover the following:

- a. The MEFIN Network – Purpose, Members, Structure, and Functions
- b. The Inclusive Insurance Landscape of the MEFIN Member Countries
- c. Challenges and Priorities

The MEFIN Network

The Mutual Exchange Forum on Inclusive Insurance, or MEFIN Network, is a collegial body of insurance policy makers and regulators in Asia. It was formed in May 16, 2013 in Cebu, Philippines when financial inclusion policy makers and insurance regulatory authorities from 6 Asian countries (Indonesia, Nepal, Mongolia, Philippines, Thailand and Vietnam) signed the so called Cebu Declaration jointly with the officers from GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) and the Asian Development Bank. The Cebu Declaration is a non-binding document which declares commitment of the signatories to the promotion and development of inclusive insurance (microinsurance) markets. In 2016, MEFIN was transformed into a formal network, with Pakistan as a new member. The Network now serves as a platform of peer-to-peer learning among policy makers and insurance regulators in the region as it develops and implements programs that provide mutual benefit to its members in advancing inclusive insurance solutions. Overall, MEFIN aims to create impacts of regulation and supervision along the dimensions of market development, institutional development and client value for the benefit of the poor.



Figure 2.1 The official MEFIN logo

With the entry of Sri Lanka in 2017, there are now seven (7) member countries in the MEFIN. Membership to the MEFIN is open to all regulatory bodies in Asia which meet the qualification criteria.



The MEFIN Network during the Public-Private Dialogue 5 in Colombo, Sri Lanka

Structure

In order to fulfill its mandate, MEFIN has a functional structure which covers the essential areas needed for further advancing inclusive insurance in its member countries. The figure below shows this structure:

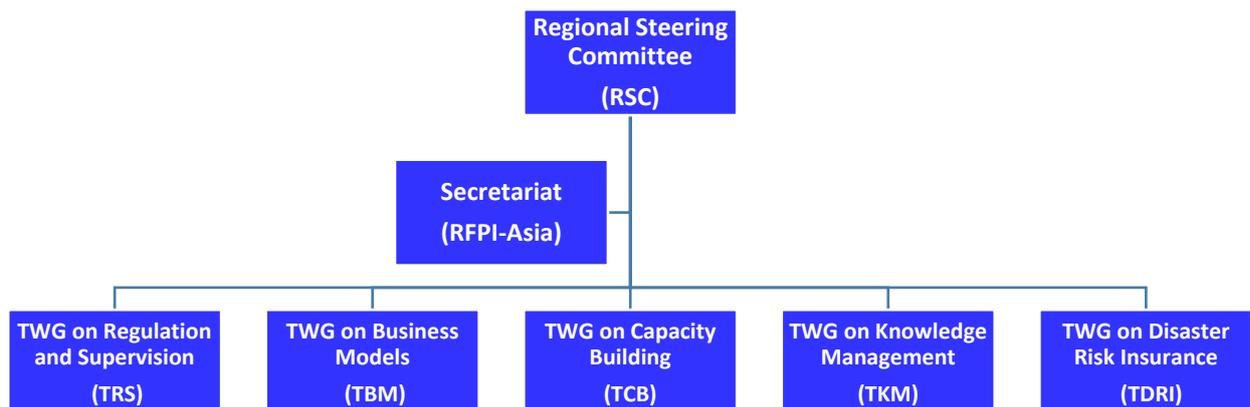


Figure 2.2: The MEFIN Structure

MEFIN is led by the Regional Steering Committee (RSC) which is composed of one permanent and one alternate member from each network country.

The Chair and Vice-chair are annually selected from among the Network members. The RSC creates and supervises Technical Working Groups (TWGs), which currently encompass the topics Regulation and Supervision (TRS), Business Models (TBM), Capacity Building (TCB), Knowledge Management (TKM), and Disaster Risk Insurance (TRDI). Each TWG is led by a member of the RSC. The Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia) Program of GIZ serves as the Secretariat of the Network.

The functions of the Secretariat and each TWG are described as follows:

- **Secretariat** - Composed of Technical Specialists of GIZ RFPI Asia Program, the Secretariat provides content, technical and administrative backing to the RSC especially in the implementation and monitoring of the Work Plan of the Committee and of the Technical Working Groups.
- **TWG on Regulation and Supervision (TRS)** - The TRS helps member countries implement regulatory instruments in their respective jurisdictions. These instruments include those that concern consumer protection issues, regulatory reviews, regulatory impact assessment, strategies for sectoral development or selected sub-topics such as financial literacy and regulatory framework, and experiences of the regulatory institutions with performance indicators. The TRS ensures that gender aspects are taken into account in the development of selected instruments. It is also the task of the TRS to engage insurance industry associations in the various Technical Working Groups.

Examples of Outputs :

- * *Self-Assessment using IAIS Instrument*
- * *Conduct of Regulatory Impact Assessment on Microinsurance.*

- **TWG on Business Models (TBM)** - The TBM aims to undertake peer-to-peer exchange on innovative business models in inclusive insurance, and encourage regulators to initiate enabling policies that

would facilitate the participation of more private sector players in the market. As it initiates research on innovative business models and partnerships, including insurtech, TBM cooperates with regulators and private sector players in documenting business models in the form of factsheets. These factsheets are published in www.mefin.org and are used in peer-to-peer exchanges and Public-Private Dialogues.

Examples of Business Model Fact Sheets:

- ★ *Philippines: Promoting Access to Microinsurance Through Online Communities*
- ★ *Indonesia: SiPINTAR, an Asuransiku (microinsurance) and Emasku (microinvestment) Hybrid Product*
- ★ *Pakistan: Making Life and Health Insurance Accessible for Middle- to Low-End Retailers (SME Segment)*

- ***TWG on Capacity Building (TCB)*** - The TCB takes charge of the development and conduct of training activities for MEFIN Network members, including the private sector, following international standards. It develops training modules on topics relevant to the needs of Network members and partners such as Self-Assessment and Regulatory Impact Assessment. This TWG also encourages the participation of insurance industry associations in Public-Private Dialogue events in support to the goals of capacity building within the Network.

Examples of Capacity Building Measures:

- *MEFIN Webinar on Risk-based Capital, 06 June 2017*
- *Seminar on Risk Protection Mechanisms for SMEs to Strengthen Inclusive Insurance in Mongolia, 05 October 2016*

undertake peer-to-peer exchange on DRI regulatory and policy developments among MEFIN countries, assess their impacts on its DRI market, and recommend new business models. In particular, this TWG helps MEFIN member countries assess their respective DRI regulation and policy directions and their synchronous linkages with

National Disaster Risk Management Plans. It also promotes exchange of views and lessons learnt on existing regulations and policies in consultation with the insurance industry. TDRI encourages its members from the private sector to recommend and submit project concepts for possible cooperation and funding.

Example of Output

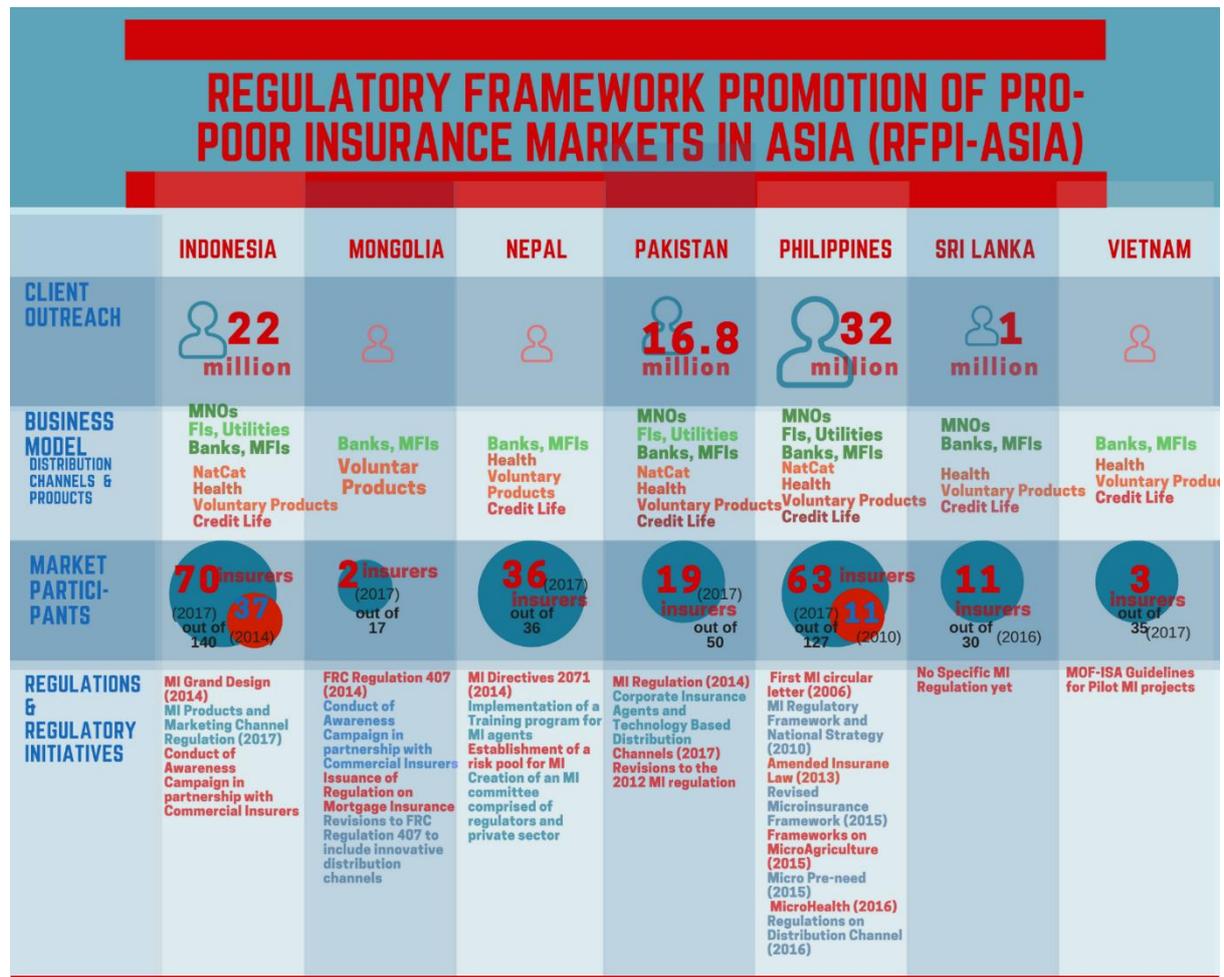
- * *Creating the Complementation of Disaster Risk Reduction and Management and Natural Catastrophe Insurance: A Training Guide for MSMEs, Insurers, and Governments*
- ***TWG on Knowledge Management (TKM)*** - The TKM facilitates the documentation, publication and sharing of experiences of MEFIN members, especially on business models, that promote inclusive insurance. Some of the initial tasks of the TKM include the development of a guide for review of knowledge products prior to publication and dissemination, and the design of a standard and official format for said products. It is also the responsibility of this TWG to ensure the sustainability of Knowledge Management within the Network.

Note: *The TKM documents, publishes all outputs and accomplishments of the other TWGs so that they can be shared with the members. This is in line with its task as an enabler of organizational learning in the network.*

The Inclusive Insurance Landscape of MEFIN Member Countries

MEFIN was established in order to assist its member countries advance inclusive insurance through exchange of learnings and the implementation of programs that are mutually beneficial to its members. As far as inclusive insurance is concerned, each of its member countries are in various levels of advancement or development. The infographic below shows a comprehensive snap-shot of the inclusive insurance landscape for each in

terms of (a) Client Outreach (b) Business Models (c) Market Participants and (d) Regulation.



From the infographic, it can be seen that the Philippines is at the most advanced stage of inclusive insurance market development. The Philippines usually serves as a role model for the other MEFIN countries. Indonesia and Pakistan follow closely, having been very successful in the use of mobile banking and initiatives in microfinance in order to improve access to inclusive insurance products and services. The other members – Mongolia, Nepal, Sri Lanka, and Vietnam – may be still at the later stages of development but they have also experienced significant growth as evidenced by the increase of insurers in the inclusive insurance sector and also in business models. With their commitment to advancing inclusive insurance combined with their active involvement in MEFIN, further progress may soon be achieved. Vietnam, for one, has a pending decree

which if approved this 2018 could speed up the development of inclusive insurance market.

Taking the experience of the more advanced countries such as the Philippines and also Indonesia and Pakistan, their growth could be attributed to a combination of good policy environment, strong market support and technological innovations. The MEFIN network recognizes this and has made it a point to place extra attention on these three (3) important factors in order to promote the growth of inclusive insurance in its member countries.

Priorities and Challenges

Since its establishment in 2013, MEFIN has been very instrumental in the promotion and development of inclusive insurance markets in its member countries. Given the global developments in inclusive insurance and the varying levels of sophistication among the member countries, MEFIN has adopted a dual approach in order to address to the specific needs of its members and at the same time attend to or introduce common concerns brought about by both global and regional developments in the industry. It is able to do this through:

- Thematic exchanges during the Public Private Dialogues (PPDs). The PPDs are an important component of the peer-to-peer learning aspect where regulators and the industry are able to exchange knowledge and information on a specific theme, discuss and find solutions to issues to further advance inclusive insurance in their respective jurisdictions. PPD1 in Manila in 2016 focused on Proportionality Practices in Regulation. PPD2 in Hanoi (2017) centered on business models and regulatory practices on Health Microinsurance and Disaster Risk Insurance, while PPD3 held in Ulaanbaatar also in 2017 dealt with the Insurance Value Chain and MSMEs.

With the very fast pace of developments in technology, PPD4 in Manila (2018) centered on Digitalization in Inclusive Insurance and PPD5 in Colombo also in 2018 emphasized on InsurTech and Inclusive Insurance for Climate Risk and Agriculture. Given that technological innovations can create both opportunities and risks for the insurance industry, and that climate change is a global concern, there is good chance of further exploring these topics in the near future.

- *Close Consultations for Country Priorities.* These are designed primarily to determine specific issues or areas in inclusive insurance that are of great importance to a member country. Given that the MEFIN member countries are at varying levels of maturity or sophistication as far as inclusive insurance is concerned, it is essential that such issues are addressed as they could significantly advance inclusive insurance in their respective jurisdictions. For 2018, the priorities for each member country are as follows:

Country	Priorities
Indonesia	Digitalization
Mongolia	Financial Literacy and Consumer Protection
Nepal	Agriculture Insurance and Digitalization
Pakistan	Digitalization
Philippines	Disaster Risk Insurance
Vietnam	Agriculture Insurance

MEFIN’s efforts in assisting their member countries have been much appreciated and it has been emphasized that the network will have a big role to play as far as advancing inclusive insurance in their respective jurisdictions is concerned. And with the fast pace of developments affecting the inclusive insurance industry, especially technological innovations, MEFIN is seen by its members as providing the crucial know-how and guidance to enable them to cope with such developments and integrate them into their respective efforts to advance inclusive insurance in their respective jurisdictions. Among the main roles that the member countries see for MEFIN are:

- Facilitate continuous exchanges/dialogues among the regulators and the private sector to come up win-win agreements on relevant issues affecting the development of effective regulatory frameworks such as technology innovations, climate and disaster risk, financial literacy, consumer protection and the like;
- Advise and guidance on how to continuously integrate inclusive insurance as an important component of the financial inclusion strategy in each member countries’ jurisdiction. This would entail continuing the conduct of the following activities which has proven to be effective in relation to this role:
 - Regulatory Impact Assessments (RIAs)
 - Capacity Building (trainings, webinars)
 - Publications of Manuals and Tool Kits
 - Business Advisory Groups (for private insurers)

In light of all these, one main issue needs to be addressed to enable MEFIN to continue its mandate of promoting and advancing inclusive insurance; and that is its sustainability. MEFIN is strongly supported by GIZ's Regulatory Framework Promotion of Pro-Poor Insurance Markets in Asia (RFPI Asia II) project. RFPI Asia II acts as the Secretariat for MEFIN and provides the valuable technical and administrative services to implement and monitor the work plan and commitments of the network. The project will come to an end by December 2018 and as such operationalizing MEFIN in a post-project scenario becomes a top priority. MEFIN may have to re-strategize its operations, including its structure and resources, in order to effectively operate in the near future.

Module III:

Roles, Responsibilities, and Key Messages for Various Stakeholder Groups in Inclusive Insurance

This module presents the various stakeholder groups involved in inclusive insurance, including their roles, responsibilities and the significant messages for each group in promoting inclusive insurance. It is composed of three (3) sections:

- Section 1 - **Macro Stakeholders**
(Legislators, Government Regulatory Agencies, National Agencies, Local Government Units)
- Section 2 - **Meso Stakeholders**
(Insurance Providers, Intermediaries, Support Institutions, Donors, and Development Partners)
- Section 3 - **Micro Stakeholders**
(Existing and Potential Male and Female Clients/Customers)

It should be noted that the stakeholders group were based on the situation and framework of the Philippines which has the most mature inclusive insurance industry and environment among the MEFIN member countries. It is being presented with the aim of providing the participants an example of a structure that has proven to be effective in supporting the development of inclusive insurance and to allow them to reflect how they can probably structure theirs.

Section 1: Macro Stakeholders

1. Legislators

Roles and Responsibilities	Key Messages
<p>There is a need to formulate laws on inclusive insurance because of the following:</p> <ul style="list-style-type: none"> ★ <i>Problem of access to financial services still prevails. The low-income sector lacks access to formal financial services.</i> ★ <i>Microfinance products in general were rapidly developed but the development of inclusive insurance products is yet to catch up.</i> ★ <i>There is a need to boost the inclusive insurance investment climate by strengthening: a) private sector participation in inclusive insurance; and b) governance and infrastructure</i> <p>Legislators can help promote inclusive insurance formulating laws, statutes, policies, and similar instruments that would:</p> <ul style="list-style-type: none"> ★ <i>Support development of innovative and affordable insurance and insurance-like products and services tailor-fitted to the needs of the low-income sector;</i> 	<ul style="list-style-type: none"> ★ <i>Laws and regulations should also support the development of more inclusive insurance systems wherein the private sector is encouraged to serve the low-income sector.</i> ★ <i>In addition, legislators should also formulate laws and regulations that support the development of innovative and affordable insurance and insurance-like products and services tailor-fitted to the needs of the low-income sector.</i> ★ <i>To encourage more institutions to develop inclusive insurance products for the low-income sector, laws and regulations should provide non-subsidy or market-oriented incentives, such as financial education and capacity-building.</i>

Roles and Responsibilities	Key Messages
<ul style="list-style-type: none"> ★ <i>Encourage private sector participation in the development and delivery of inclusive insurance products and services;</i> ★ <i>Provide incentives for the development of inclusive insurance products and services</i> ★ <i>Promote financial inclusion, good governance, and consumer protection; and</i> ★ <i>Amend the Insurance Act or any similar legislation to include provision on inclusive insurance.</i> 	

2. Government Regulatory Agencies

Roles and Responsibilities	Key Messages
<p>Regulatory agencies should issue rules, regulations, and guidelines for, among others:</p> <ul style="list-style-type: none"> ★ <i>Mainstreaming inclusive insurance;</i> ★ <i>Setting standards;</i> ★ <i>Promoting transparency and good governance; and</i> ★ <i>Protecting consumers.</i> <p>The government will not provide any direct subsidy in mainstreaming informal insurance providers. Instead, the government shall create a special regulatory space for informal insurance</p>	<ul style="list-style-type: none"> ★ <i>For regulatory agencies to create a more conducive and enabling environment for inclusive insurance, they can:</i> * <i>Issue rules, regulations, and guidelines for mainstreaming inclusive insurance;</i> * <i>Set, improve, and implement performance standards that are critical to the viability, growth, and development of the inclusive insurance industry; and</i>

Roles and Responsibilities	Key Messages
<p>providers to formalize their insurance and/or insurance-like activities. This includes among other things, lower capital requirements for entities wholly engaged in inclusive insurance.</p>	<ul style="list-style-type: none"> * <i>Create rules and guidelines that promote transparency and good governance.</i> ★ <i>All rules and regulations that will come from government regulatory agencies will ultimately ensure that inclusive insurance products and services are safely and soundly delivered to those who need them most. To do this, regulatory agencies can do the following:</i> <ul style="list-style-type: none"> * <i>Protect policyholders in general by ensuring solvency of insurers. This includes determining that insurance products may only be offered by licensed entities (both insurers and intermediaries). Licensed inclusive insurance providers should remain financially sound and should meet their obligations.</i> * <i>Protect individual policy holders, including prospective holders, against mis-selling and improper handling of claims. Regulators should ensure that policyholders' grievances are redressed immediately through alternative dispute resolution mechanisms.</i> * <i>Develop insurance markets by improving market efficiency</i>

Roles and Responsibilities	Key Messages
	<p><i>through expansion of delivery channels and by ensuring a level playing field.</i></p> <ul style="list-style-type: none"> * <i>Include persons who currently have no access to or are unable to afford insurance through appropriate product design and delivery mechanisms.</i> * <i>Government regulatory agencies should also be constantly in touch with one another and stakeholders to keep abreast of developments in the field.</i>

3. National Agencies

Roles and Responsibilities	Key Messages
<ul style="list-style-type: none"> * <i>National agencies can effectively link inclusive insurance providers and clients.</i> * <i>They can likewise provide basic support services (infrastructure, education, health services, maintenance of peace and order among others).</i> 	<ul style="list-style-type: none"> * <i>There is a need to make participants from national agencies realize that inclusive insurance will meet their clientele's need for risk protection and relief against distress, misfortune, and other contingent events.</i> * <i>National agencies can include inclusive insurance in their initiatives.</i> * <i>To effectively do this, national agencies should link with industry players. In addition, field personnel of national</i>

Roles and Responsibilities	Key Messages
	<p>agencies who are in close contact with communities, can effectively provide inclusive insurance information. For example, extension workers from the Department/Ministry of Agriculture can provide inclusive insurance information to farmers.</p>

4. Local Government Units

Roles and Responsibilities	Key Messages
<p>Local government executives and other officials play a crucial role in promoting inclusive insurance among their constituents. Their buy-in hinges on the acceptance of the fact that inclusive insurance is a sustainable approach to risk management for their constituents who belong to the low-income sector. Inclusive insurance could offer a means to meet the needs of the low-income sector for risk protection and relief against distress or misfortune.</p> <ul style="list-style-type: none"> ★ <i>LGUs can collaborate with the private sector, which will develop inclusive insurance products and services.</i> ★ <i>LGUs can also establish support mechanisms, such as linkages, information and public assistance desks, financial literacy campaigns, etc. that will increase</i> 	<ul style="list-style-type: none"> ★ By promoting inclusive insurance among their constituents and giving better access to inclusive insurance, LGU officials will be able to demonstrate good leadership and governance. Inclusive insurance will lessen the burden on the LGU resources in times of calamity and other unforeseen and unfortunate events. ★ LGUs can integrate inclusive insurance in LGU-led initiatives for the poor. Inclusive insurance will provide greater access to risk protection in programs on livelihood, agriculture, environment, health, etc.

Roles and Responsibilities	Key Messages
<p><i>public awareness and access to inclusive insurance products and services by the poor.</i></p> <ul style="list-style-type: none"> ★ <i>LGUs can provide help desks to assist their constituents in identifying the right inclusive insurance products and providing grievance mechanisms.</i> ★ <i>To make inclusive insurance products and services more accessible, LGUs can link such products and services to various local government programs. For example, when delivering livelihood programs to LGU constituents, these can be connected to inclusive insurance products that could protect small-scale entrepreneurs and their livelihood from possible risks. Environmental programs can be linked to weather index-based inclusive insurance products to protect their constituents from the impacts of flood and typhoon events.</i> <p><i>LGUs may make arrangements for provision of inclusive insurance to their constituents, on top of government-sponsored social insurance (e.g. in the Philippines – PhilHealth, Philippine Crop Insurance Corporation, GSIS, SSS).</i></p>	

Section 2: Meso Stakeholders

5. Insurance Providers

(Life and Non-life Insurance Companies, Cooperative Insurance Societies, Insurance/Service Cooperatives, Mutual Benefit Associations, Pre-need Companies, and Health Maintenance Organizations)

Roles and Responsibilities	Key Messages
<p>Insurance providers should take the lead in directly providing inclusive insurance products and services that are simple, affordable, innovative, and tailor-fitted to the needs of the low-income sector.</p>	<p>The following need to be underscored when promoting inclusive insurance to insurance providers:</p> <ul style="list-style-type: none">★ Insurance is a business of trust.★ Inclusive insurance is a viable business activity.★ Inclusive insurance requires non-traditional product development, delivery systems, and approaches.★ There is a need to develop both life- and non-life inclusive insurance products and services tailor-fitted to the needs of the low income sector.★ Insurance providers should be aware of their responsibilities to clients, and the various prudential market conduct, and good governance requirements.

Roles and Responsibilities	Key Messages
	<p>In addition to the required features of an inclusive insurance contract and the limits to insurance coverage and premium payments, the following are the required regulatory and prudential requirements:</p> <ul style="list-style-type: none"> ★ Bundled products should only comprise of inclusive insurance products; that is, they meet risk protection needs of the low-income sector. ★ Each of the components of the bundled product is underwritten separately by the entities. ★ The contract specifies that the lead inclusive insurance provider shall assume the liability for the inclusive insurance products or services. ★ Whenever applicable, all inclusive insurance providers should also ensure that the contract bears the inclusive insurance logo at the upper right hand corner. <p>To facilitate distribution of inclusive insurance products, an inclusive insurance agent/broker shall be licensed by the authorized insurance supervisory body in the country.</p>

Roles and Responsibilities	Key Messages
	<ul style="list-style-type: none"> ★ Inclusive insurance agents/brokers shall not be required to take the regular licensure examination. They shall undergo a duly approved and prescribed inclusive insurance training program and pass a qualifying examination at the end of such training program. ★ Licensed agents/brokers are allowed to sell inclusive insurance products and services, provided they shall sell only inclusive insurance products. ★ In the case of inclusive insurance brokers/general agents, they shall have a capitalization requirement equivalent to half of what is required for regular brokers/general agents. ★ A microfinance institution may apply and be licensed as an inclusive insurance agent, provided the institution identifies a soliciting agent. ★ Primary cooperative member-owners of a Cooperative Insurance Society (CIS) may apply and be licensed as inclusive insurance agents, provided the primary cooperative sells inclusive insurance products only to the individual members of the primary cooperative.

The following information would also be very useful to insurance providers:

When is an entity considered doing informal insurance or insurance-like activity?

Any entity engaged in the collection of premiums, contributions, fees, or charges from members/clients for an assurance of guaranteed benefits upon occurrence of a contingent event but without any certificate of authority from the authorized insurance supervisory body is considered to be doing informal insurance or insurance-like activity. These do not include contribution type of activities wherein the benefits or payments are limited only to the amount of premiums or contributions collected at the time the contingent event happened. An example would be the Philippine “abuloy” or “damayan”, which are contributions made in times of death, accidents, calamities, and other unfortunate events.

Why are entities engaged in informal insurance or insurance-like activities required to formalize their operations?

The risks of these entities not being able to uphold their promises and fulfill their obligations have to be minimized, if not avoided.

What are the options available for an entity that is currently engaged in informal insurance activity?

It shall be required to formalize its informal insurance activities, in the example of the Philippines, by choosing any of the following options:

- a. Partnership with formal insurance providers and intermediaries through the purchase of individual/group insurance policies; this option may even open opportunities for licensure as an agent or broker.
- b. Joining an MBA or a Cooperative Insurance Provider. Cooperatives may apply as members in an existing Cooperative Insurance Society while individuals may apply as members in an MBA or in an Insurance/Service Cooperative engaged in the insurance business. Joining an MBA or a Cooperative Insurance Provider. Cooperatives may apply as members in an existing Cooperative Insurance Society while individuals may apply as members in an MBA or in an Insurance/Service Cooperative engaged in the insurance business.
- c. Setting up of any of the following licensed insurance entities:
 - i. Life or Non-Life insurance company;
 - ii. MBA; or
 - iii. Cooperative insurance provider

Are there sanctions or penalties for entities engaged in informal insurance?

Yes. There are legal provisions that empower regulatory bodies to impose sanctions or penalties to entities engaged in informal insurance without the requisite license from the authorized insurance supervisory body. Concerned regulatory organizations will collaborate and exchange information to ensure that entities doing informal insurance and insurance-like activities are operating within the prescribed regulatory environment. All entities should comply with the prescribed registration and licensing requirements to ensure consumer protection.

Will the government provide subsidy in the mainstreaming the informal insurance providers?

The government will not provide any direct subsidy in mainstreaming informal insurance providers. Instead, the government shall create a special regulatory space for informal insurance providers that plan to formalize their insurance and/or insurance-like activities. This includes, among other things, lower capital requirements for entities wholly engaged in inclusive insurance.

6. Intermediaries (Inclusive Insurance Agents and Brokers)

Roles and Responsibilities	Key Messages
<p>Intermediaries can facilitate the provision of inclusive insurance products and services to clients through effective information dissemination, educational activities, and reliable services, including claims.</p>	<ul style="list-style-type: none"> ★ Insurance is a business of trust. ★ Intermediaries should be aware of their responsibilities to clients, and the various prudential, market conduct, and good governance requirements. ★ Intermediaries should be able to explain an inclusive insurance product in a clear, simple, and concise manner. ★ There is a need to develop an efficient and effective delivery system for inclusive insurance. ★ Inclusive insurance agents and inclusive insurance brokers shall be the intermediaries who can sell inclusive insurance products. ★ Inclusive insurance agents are individuals or entities that have been licensed by the authorized insurance supervisory body to

Roles and Responsibilities	Key Messages
	<p>obtain or solicit inclusive insurance on behalf of a duly licensed insurance entity. They will not be required to take the regular licensure examination for insurance agents. Rather, they will undergo an approved inclusive insurance training program and pass a qualifying examination at the end of the program.</p> <ul style="list-style-type: none"> ★ Inclusive insurance brokers are individuals or institutions that have been licensed by the authorized insurance supervisory body to solicit, negotiate, or procure the making of any inclusive insurance contract on behalf of clients. Inclusive insurance brokers are required to put up the required capitalization equivalent to half of what is required for regular brokers.

7. Support Institutions

(Academic Research Entities, Business Process Outsourcing Companies, Training and Technical Assistance, Service Providers, Networks and Associations, Media, Foundations, and other Service Providers)

Roles and Responsibilities	Key Messages
Support institutions can provide assistance in promoting financial literacy on inclusive insurance	<ul style="list-style-type: none"> ★ There is a need to enhance the public's trust and confidence in inclusive insurance and

Roles and Responsibilities	Key Messages
<p>through capacity building for stakeholders.</p>	<p>inclusive insurance providers through education.</p> <ul style="list-style-type: none"> ★ Support institutions should take the lead in raising public awareness on the importance of inclusive insurance. ★ Support institutions should develop appropriate back office support systems for inclusive insurance, such as business process outsourcing and product development.

8. Donors and Other Development Partners

Roles and Responsibilities	Key Messages
<p>Donors and other development partners can provide technical assistance to both government and private entities in policy and regulatory frameworks formulation, capacity building, products development, and promotional activities, including financial literacy. In addition, the government will need the support of development partners in building the capacity of informal insurance providers to mainstream and formalize their operations. Assistance from development partners may include, among other</p>	<ul style="list-style-type: none"> ★ Significant investments are required to support inclusive insurance training and research and development. ★ They are also enjoined to support the setting up of a KM (Knowledge Management) system that would link support institutions and other stakeholders through a web-based platform.

Roles and Responsibilities	Key Messages
things, the following: innovations in developing appropriate insurance products for the poor; development of the appropriate database; and financial literacy.	

Section 3: Micro Stakeholders

9. Existing and Potential Clients/Customers

Roles and Responsibilities	Key Messages
<p>These stakeholders should be able to:</p> <ul style="list-style-type: none"> ★ <i>Understand and appreciate the concept of risk protection;</i> ★ <i>Know their options and make informed decisions to avail themselves of inclusive insurance products and services; and</i> ★ <i>Encourage others to buy inclusive insurance because they themselves are convinced of its value.</i> 	<ul style="list-style-type: none"> ★ Inclusive insurance is an affordable approach to risk management for the low-income sector. ★ Inclusive insurance offers protection against various risks: death; accident and illness including health-specific risks for women; fire and other extended perils; calamities/disasters/catastrophic events; casualty; and other contingent events. ★ Clients should buy inclusive insurance products and services from licensed and authorized providers.

Roles and Responsibilities	Key Messages
	<ul style="list-style-type: none"> ✳ Inclusive insurance can be accessed through formal distribution and delivery channels. ✳ Inclusive insurance shall wean people from the age-old fatalistic mindset and family dependence to one of preparedness, from unnecessary spending to channeling part of their income to risk protection products and services. ✳ Clients should be aware of their rights, privileges, and responsibilities on inclusive insurance. ✳ Clients should be encouraged to cooperate with government and providers in undertaking activities that promote financial literacy on inclusive insurance.

Module IV:

Good Practices

Module IV showcases good practices from two MEFIN member countries the -Philippines and Indonesia – which have significantly contributed to the development and promotion of their respective inclusive insurance markets. These practices are categorized into the so-called “Pillars” for the proposed Microinsurance Road Map for Emerging Countries of the APEC which was cited in Module 1. These pillars are as follows:

- *Pillar 1: Establishment of policies and **proportionate regulations** for Inclusive insurance and microinsurance*
- *Pillar 2: Adoption of **scalable business models** using fintech for inclusive insurance*
- *Pillar 3: Establishment of **inter-agency coordination** and private-public sector coordination mechanism supportive of inclusive insurance*
- *Pillar 4: Financial **literacy** and consumer **protection***

The purpose of sharing these best practices is to provide the participants with actual examples which they could use as benchmarks or models for their own efforts in advancing inclusive insurance in their respective jurisdictions.

Pillar 1: Proportionality

Philippines: Application of Proportionality Principle in Regulations

Insurance Core Principle (ICP) #4 **Licensing** – *an entity which intends to engage in insurance must be licensed*

Proportionality Application of ICP	Impact to Microinsurance
<ul style="list-style-type: none"> ★ Circular Letter 9-2006 provides lower capital requirement in licensing an MI-MBA. ★ CL 6-2011 – Guidelines on training program and licensing of MI agents simplified the requirements of MI agent licensing to only a completion of 3-day training. The MI licensing also provides license to an institution. ★ Joint IC-CDA-SEC Memo Circular 1-2010 – Defining Government’s Policy on Informal Insurance Activities. It provided 3 options in formalizing unauthorized insurance activities 	<ul style="list-style-type: none"> ☞ As of 2016, there were 22 MI-MBAs with a combined 17Mn clients or 63% market share. ☞ As of 2016, 135 MI agents were licensed (34 rural banks and 135 individuals). ☞ Created a partner-agent business model; rural banks as agent partnering with commercial insurance companies. ☞ Mainstreamed informal insurance schemes.

Pillar 2: Scalable Business Models

Philippines: Pioneer Insurance's "customer centric" model and Use of Technology in MI

Pioneer Insurance, one of the leading commercial microinsurance provider in the Philippines, places premium on the customer to effectively service the low-income market. Knowing that this particular segment has particular needs and behaviors, Pioneer re-organized itself to continuously learn from its customers which featured the following:

★ **Immersion Visits** - actual visits to clients for 3 to 5 days every year. Everyone from top management to front-line staff are required to do these visits and the learnings are used to re-engineer processes and develop/adjust products to deliver greater value to customers and partners.

★ **Set-up of a Unit focused on the low-income market** – allowed to experiment and innovate so that adjustments could be made to products and services that could accommodate the realities of the market segment.

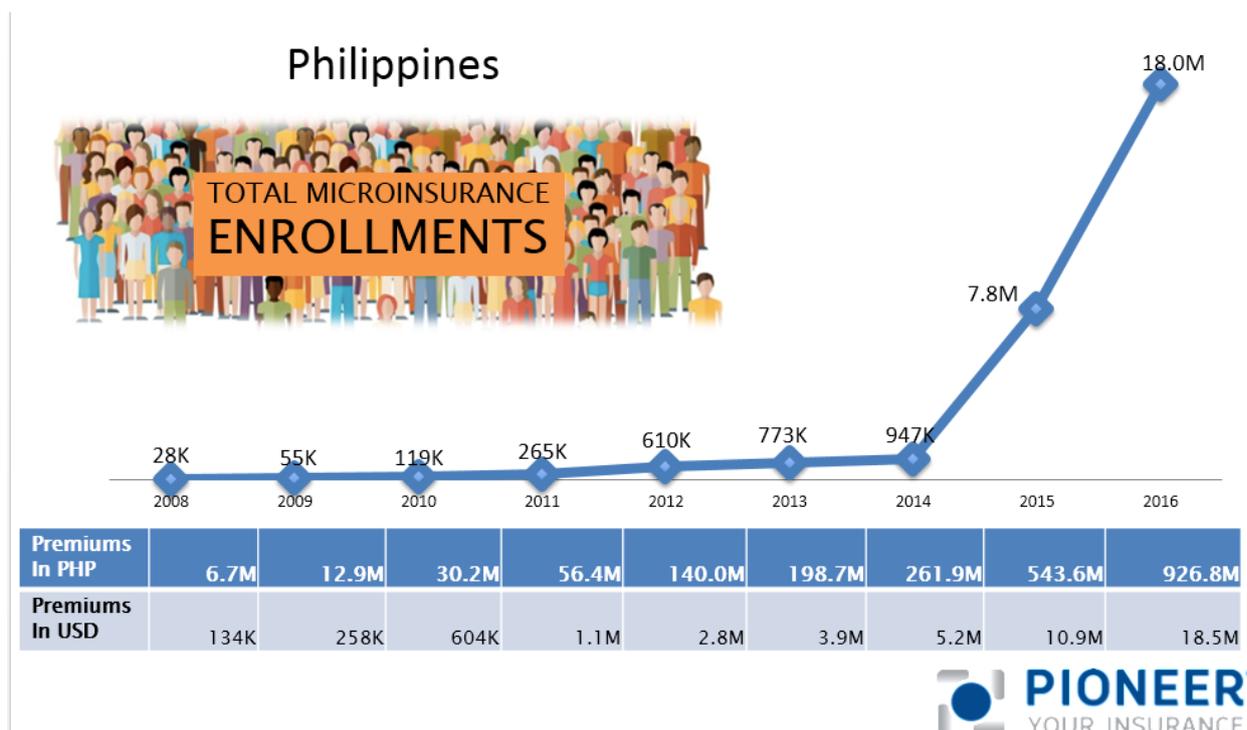
Such measures have led to innovations leading to faster claims processing (standard of 5 days from claims submission to payment) and unique guidelines (e.g. if death certificate could not be released, Pioneer sends a representative to verify and make the payment without the certificate).

The company's customer-centric focus also enabled it to form more partnerships with distribution channels. Partnerships allowed scales and further opportunities to pay claims and promote its products. Such partnerships also allowed for technological innovations to better service it clients.

Distinct Features of Technological Innovations:

- ★ Smart Phones capture the Voice of the Customer
- ★ Automated, timely dashboards for quicker decision making ;
Deliver consistent, positive customer experience
- ★ Faster claims processing

Results of Pioneer’s Customer-Centric Innovations:



Indonesia: Allianz’s MI delivery through MFIs and MNO

Microfinance Institutions (MFIs) remain to be the easier entry point of MI providers as its captive market enabled MI providers to immediately reach business scale. It incentivized roles delegated to MFIs such as client enrolment, education, and claims administration. Credit-life is believed to be of more interest to MFIs as a lender. Asuransi Allianz Life Indonesia, wanted to do upselling for voluntary and more relevant microinsurance products to protect not only micro borrowers but also their followers.

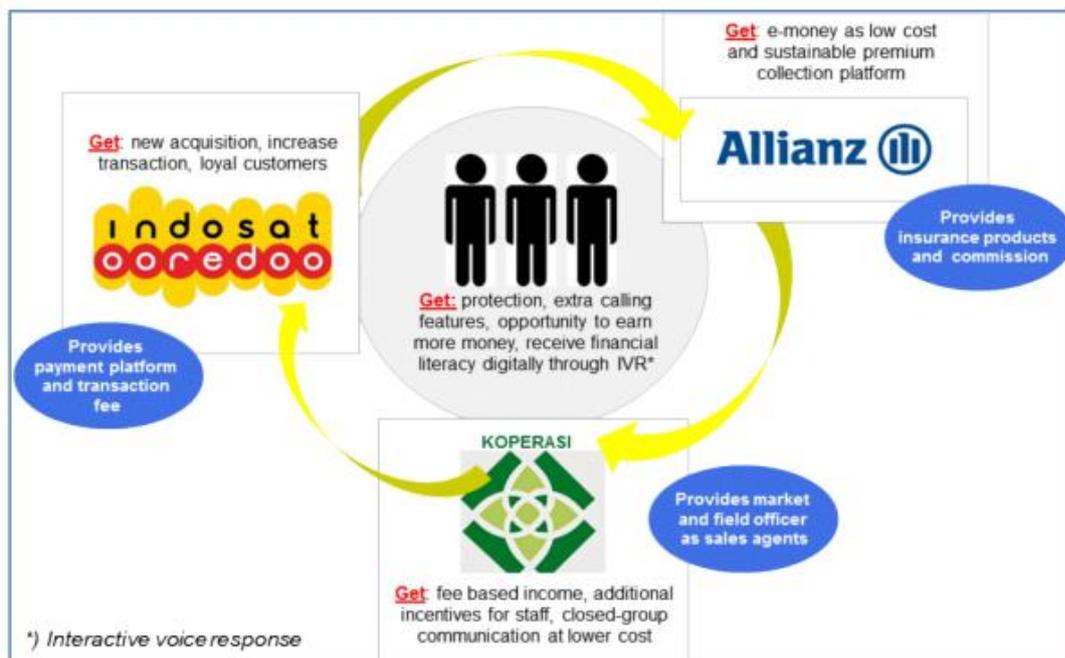
To this challenge, Allianz came up with the “**SEKOCI**” (lifeboat in Indonesian). It is a top up to the Payung Keluarga credit-life clients who are 17-65 years old. SEKOCI will be sold to the families of borrowers after pilot experience shows that adverse selection could be managed well. It is the result of a survey commissioned by Allianz that revealed that life, health, and accident coverage are the top preferences of clients. The product is designed in modular basis and as such with the basic sum assured, premium and commission could vary depending on the agreement with the MFI as the aggregator. Likewise, Allianz designed the SEKOCI to increase its brand

awareness among credit-life clients (from 26% to at least 50%) by sending digital financial literacy messages to the clients through the Interactive Voice Response (IVR) technology.

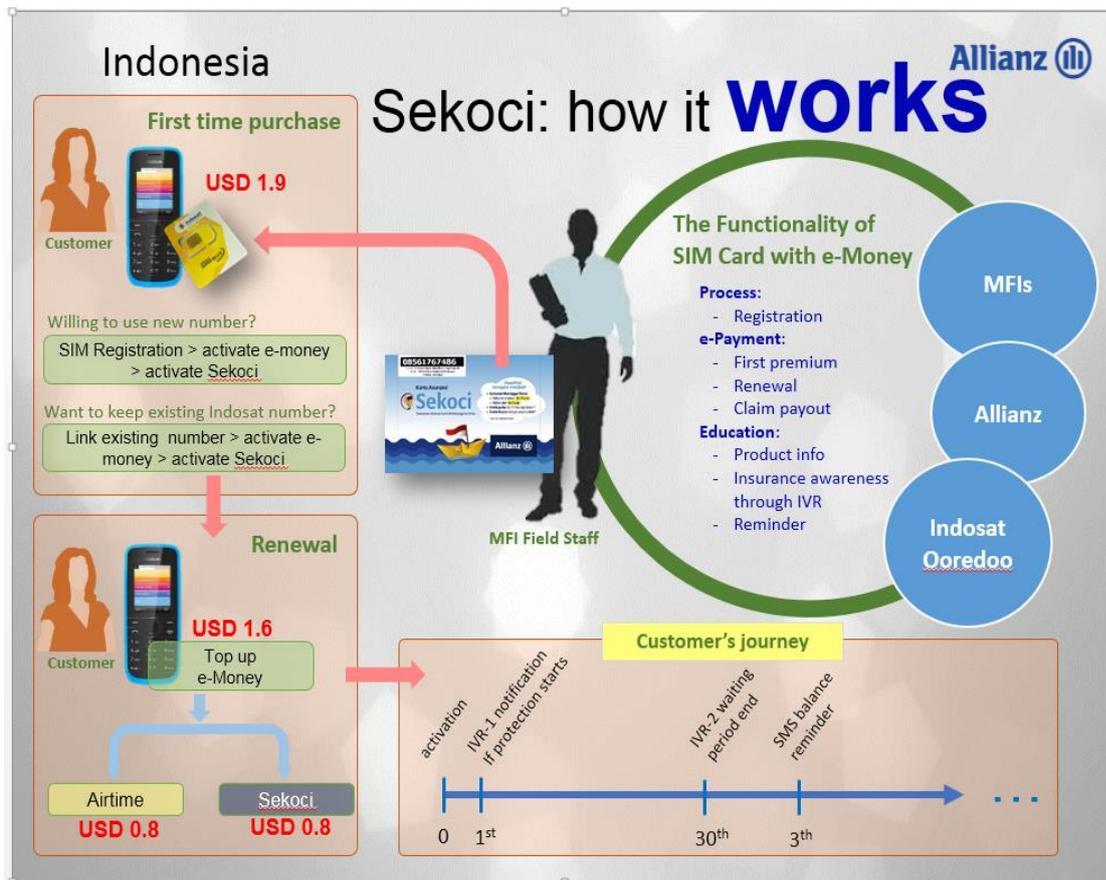
Allianz developed a **tripartite business model** to ensure effective access and delivery of the SEKOCI. By partnering with telecom provider Indosat Ooredoo's Dompetku e-money service, product access is enhanced by technology application. The MFI acts as an agent and helps customers activate the SIM card and SEKOCI policy. Likewise, the MFI helps in the claims procedure by collecting documents, and endorsing to Allianz for processing. Claims pay-out is deposited to the customer's Dompetku e-money account.

Through the tripartite business model, SEKOCI brings value to clients using e-money as a low cost and sustainable platform for premium collection, payment claims, and renewal of policy as well as continuous customer education through the IVR platform. Clients benefit from the added value of the SEKOCI product and administration services.

The SEKOCI Tripartite Business Model



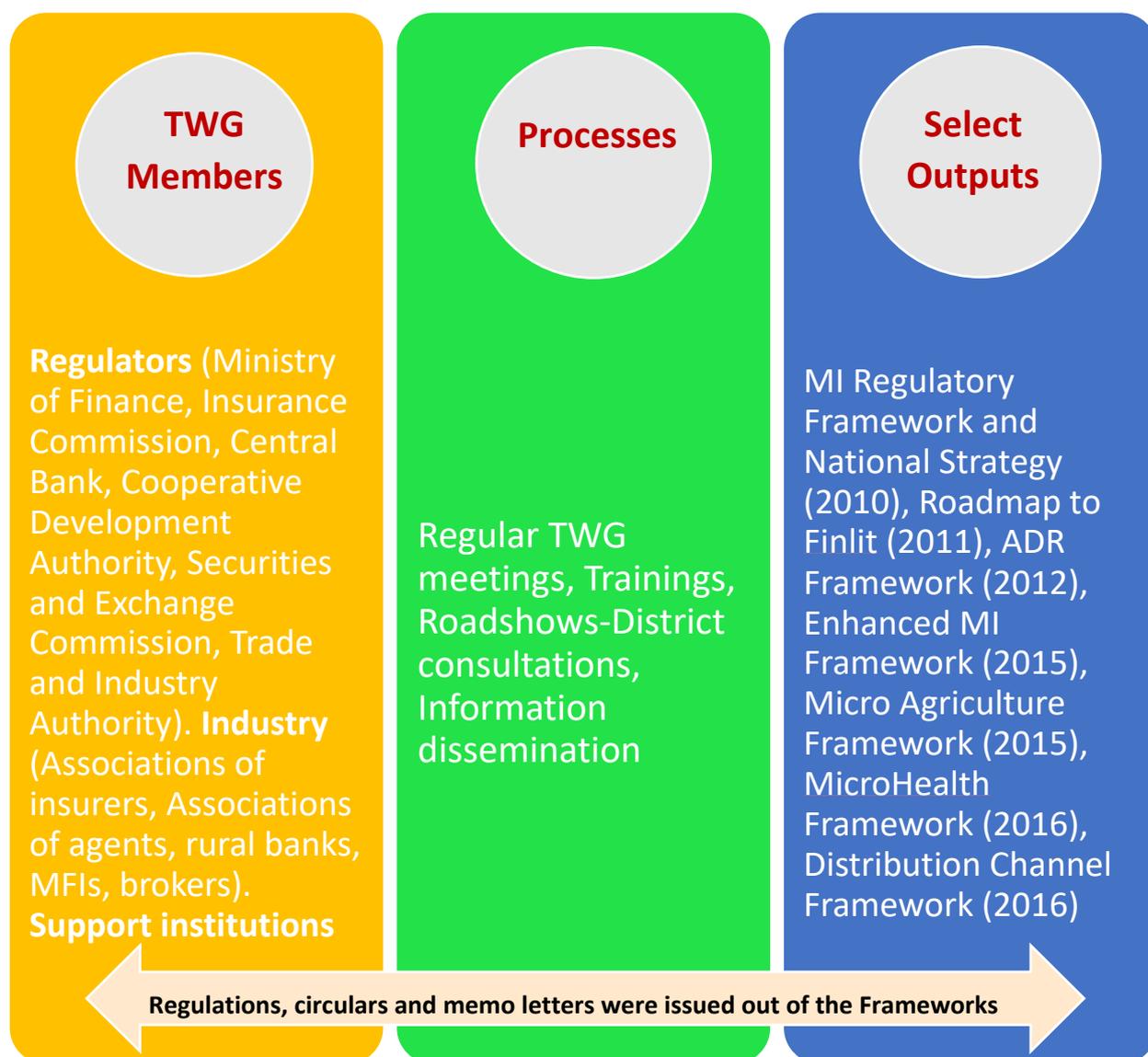
How SEKOCI Works



Pillar 3: Interagency Cooperation

Philippines: Developing of MI Policy Frameworks and Regulations through Multi-stakeholders Technical Working

In 2009 the financial regulators, financial intermediaries, members of industry and other stakeholders formed Technical Working Groups (TWGs) in order to formulate a broader regulatory framework on microinsurance and the national strategies to implement the framework. The TWG is headed by the Department of Finance.



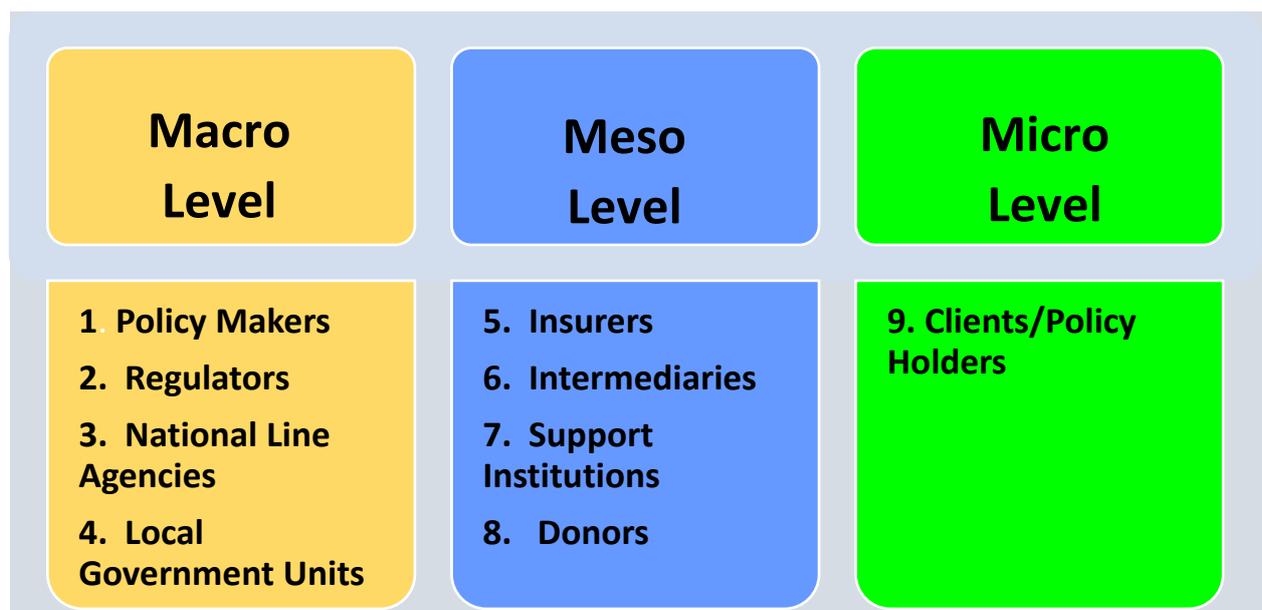
Through the TWGs, a number of important regulations were enacted which greatly contributed to the advancement of inclusive insurance in the Philippines. By involving all stakeholders in open and productive dialogues, the Philippines was able to come up with evidence-based and proportionate regulations, built trust, and created strong ownership to ensure implementation and compliance – all of which are essential in advancing inclusive insurance and making it possible to support the over-all financial inclusion strategy of the country.

Pillar 4: Financial Literacy and Consumer Protection

Philippines: Microinsurance Advocacy for 9-stakeholder Groups

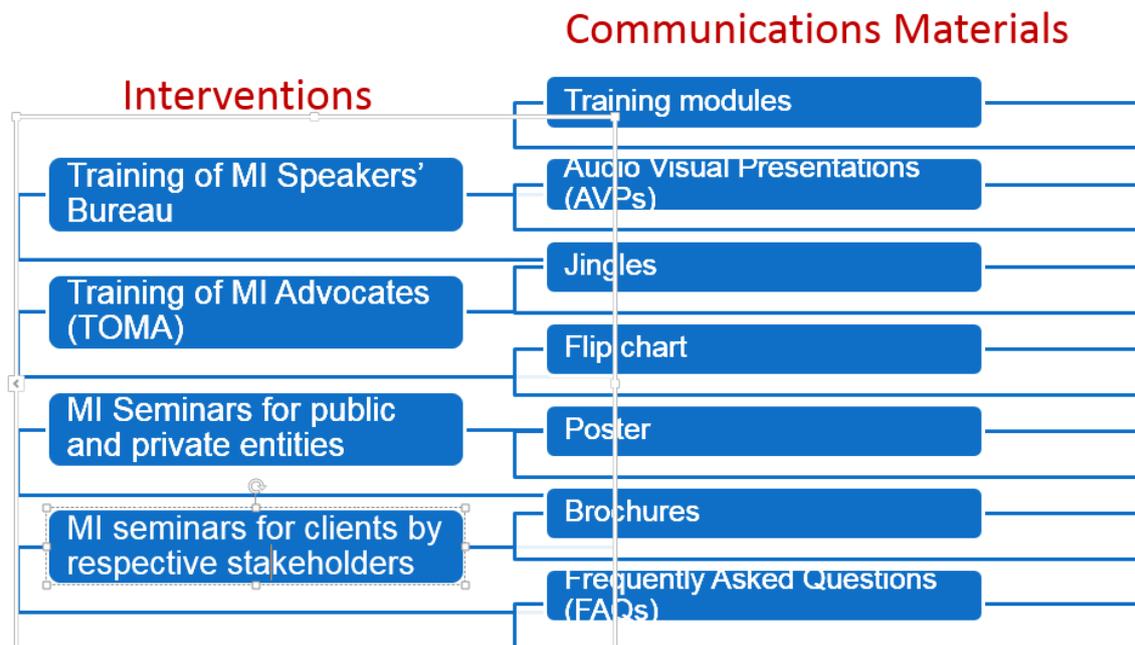
The Philippines has identified nine (9) stakeholders in inclusive insurance and has classified them accordingly under three (3) levels – Macro, Meso, and Micro. The purpose for the structure and classification is to make each of them aware of and understand the roles that they have in advancing inclusive insurance and enhance cooperation among them, financial literacy and consumer protection included.

The Stakeholders Structure:



Given the structure, the Roadmap to Financial Literacy was issued in in January 2011. The main goal of the roadmap was to contribute to creating a strong insurance culture in the country. There were four (4) main components: *(1) formulation of the key messages on the role of the stakeholder groups to the development of the microinsurance market; (2) the development of training and communication materials to be used by various stakeholders, (3) the training of microinsurance advocates, and (4) roadshows and public seminars in key cities across the country.*

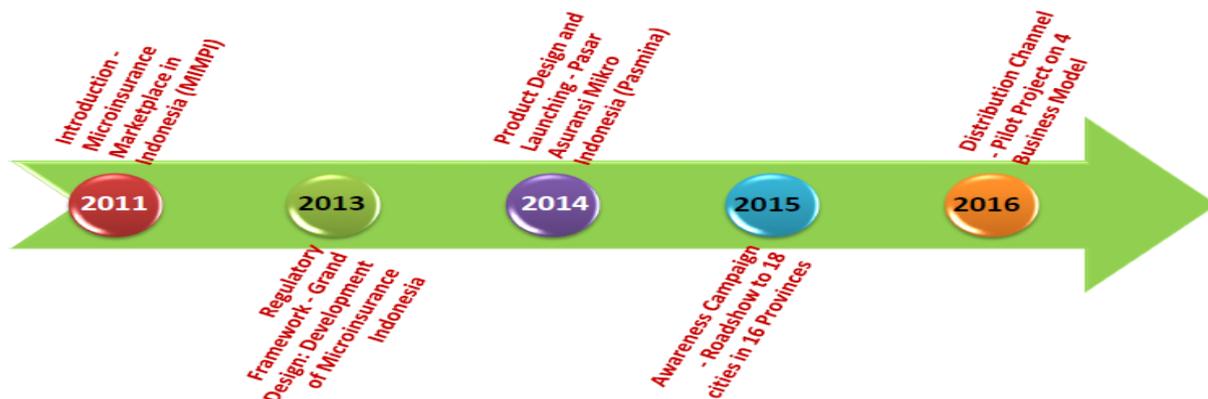
The Measures:



A series of roadshows were conducted in 16 regions across the country and reached out to a variety of partners – LGUs, insurers and intermediaries, local groups and clients. In each of the four-day training event, the first three days were dedicated to the **“Training of Microinsurance Advocates” (TOMA)** and the last day as advocacy seminar open to the public. All in all, 660 staff members of authorities and the private sector were trained as “MI Advocates” and are tasked with disseminating key messages from seminars and other key events to their respective projects and offices.

Indonesia: Microinsurance Literacy Program (Socialization and “Pasmina”)

The Microinsurance Literacy Program is a part of the **“2013 Grand Design: Development of Microinsurance Indonesia”** which consists mainly of capacity building and public awareness activities. This measure is in response to the finding of low awareness and understanding about microinsurance of the Indonesian citizenry as one of the main obstacles towards the development of the said industry.



The pilot of the program started in 2015 with the Indonesian Financial Services Authority (OJK) and the insurers conducting an MI Roadshow in 18 cities in 16 provinces. The pilot campaign was in the form of public awareness campaigns (Socialization or “*Pasma*” in Indonesian) in order to: (a) determine the consumers’ perspectives on microinsurance (demand side), and (b) the readiness and development of product distribution strategy of the insurance industry as well as the OJK. The public awareness campaign was conducted using 3 models:

Model	Description
Direct	OJK and the insurer conduct a one day face-to-face seminar, with a full set of MI material presented and discussed
Indirect	Dissemination of MI booklets and comics to communities and groups
Drop-off	MI booklets and comics are provided to distribution channel outlets

An MI Awareness package was likewise developed and used for the public awareness campaign, with a full package composed of the following:

- ★ MI booklet
- ★ MI comics
- ★ Video and Jingle in CD format
- ★ Product description brochures / leaflets
- ★ Poster



Aside from increasing awareness and understanding on the part of the consumers, the pilot campaign enabled OJK to gather important data (both from supply and demand sides) which they integrated into the Grand Design to make it more responsive to the needs of the low-income sector. This in turn contributed to increasing the outreach of MI in the Indonesia as indicated below.



MI Outreach

Description	2014	2015	2016
Number of insured/ policies enforced (millions)	8.8	18.3	21.8
Gross written premium (million USD)	36.2	60.1	65.5
Number of Insurers	37	65	70

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