Highlights of a Market Study on Financial Vulnerability of MSMEs

Claudia Simone Mallschützke

Representative of GIZ-RFPI Asia (Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia)

APEC Policy and Dialogue for SME BCP Forum and Workshop

January 30, 2015 – Mimosa Convention Hall, Mimosa-Montevista Villas, Clark
Outline

1. Highlights of the **Insurance Needs Assessment for MSMEs** in the Philippines, commissioned by GIZ

2. **Microinsurance as a possible solution**: Current Initiatives, Rules and Regulations
### Business continuity is threatened by financial risk events

Risk Identification – *top 5 financial risks of MSMEs*

<table>
<thead>
<tr>
<th>Rank</th>
<th>Financial risk</th>
<th>Relevance to respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>• Natural Disasters (flood, heavy rain, drought, earthquake)</td>
<td>83%</td>
</tr>
<tr>
<td>2</td>
<td>• Fire (affecting building or assets)</td>
<td>67%</td>
</tr>
<tr>
<td>3</td>
<td>• Illness (of owner, employees or their family)</td>
<td>61%</td>
</tr>
<tr>
<td></td>
<td>• Theft</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>• Loss of potential income due to several reasons (supplier did not deliver raw materials on time, reservations and bookings got cancelled, etc.)</td>
<td>56%</td>
</tr>
<tr>
<td>5</td>
<td>• Accidents causing injury or disability</td>
<td>50%</td>
</tr>
</tbody>
</table>
Insurance tops the list of coping mechanisms to ensure business continuity

Coping Mechanisms of MSMEs

Number of respondents

- Reduce Expenses
- Support from social environment
- Loan from Banking Institutions
- Increase of working hours
- Insurance
- Savings
Insurance tops the list of contingency plans to ensure business continuity

Contingency Plans of MSMEs

- Insurance
- Savings
- Installment of security measures
- Change of business location
- No contingency plan
- Frequent evaluation of short-term plans
- Engage in other line of business
- Alternative Marketing
- Other investments
- Re-staffing
- Storing lumber in three different locations
- Gov't (DA) tie-up to increase volume supplies

Number of respondents
Insurance is a cheap form of financial risk protection of business

Insurance Awareness and Understanding of MSMEs

- A form of protection
- Investment
- Requirement in getting loan
- Doubt, can't be trusted, negative image
- Expense (unnecessary)
- Don't know (not aware, don't understand)

Number of respondents

- Micro
- Small
- Medium
Insurance is a cheap form of financial risk protection of business

Advantage of Insurance as perceived by MSMEs

- Financial protection from unexpected events
- Peace of mind
- No/less disruption to business operation
- Less cost
- Others

Number of respondents

- Micro
- Small
- Medium

0 2 4 6 8 10 12

03/02/2015

XXX
MSMEs spoke of most relevant insurance products which would manage the threat of business continuity

Most important Life Insurance Products

- Unemployment insurance
- Education subsidy
- Combined with retirement fund
- Personal accident
- Life, memorial
- Health, hospitalization

Number of respondents

0 1 2 3 4 5 6 7

Medium
Small
Micro
MSMEs spoke of most relevant insurance products which would manage the threat of business continuity

Most important Property Insurance Products

- Machineries, mortgage
- Motor/car
- Natural catastrophes
- Theft
- Fire

Number of respondents

0 1 2 3 4 5 6 7

- Medium
- Small
- Micro

03/02/2015

Page 9
MSMEs spoke of most relevant insurance products which would manage the threat of business continuity

Most important Business Liability/Interruption Insurance Products

- Injury to clients
- Increasing cost of raw materials
- Electricity interruptions
- Late/no delivery of supplies
- Insurance that earns return
- Insurance on IPR for product sample designs
- Delivery loss due to theft
- Cancellations of orders/bookings
- Loss of income
- Performance bonds

Number of respondents

- Micro
- Small
- Medium
There is insufficient supply of appropriate insurance products in the market especially for micro and small enterprises

- Total 12 life and property products offered, 5 companies cover business liabilities, of 7 companies
- Life: most common risk covered is personal accident
- Properties: calamity, fire
- Business Liabilities: Comprehensive General Liability (CGL), Money, Securities and Payroll (MSP)
Microinsurance, specially designed for the low income and informal sector could be a solution to manage the risks of business continuity. GIZ RFPI Asia supports the development of this market in 7 countries in Asia.
GIZ RFPI Asia Core Countries

Program objective: the regulatory and supervisory conditions for effective insurance coverage of low-income people in Asia have improved

Mongolia
- MSME

Nepal
- Agriculture

Vietnam
- ADR
- MSME
- Health

Thailand

Indonesia
- Takaful

Measures/Interventions:
1. Standard setting.
2. Capacity building.
3. Awareness raising
4. Develop business models on certain themes (SMEs, Takaful, Agro, DRM and Health)
MICROINSURANCE:
Current Initiatives, Rules and Regulations

Philippines is leading in Asia on MI market development
1. Microinsurance defined.
2. Microinsurance providers identified.
3. Formalization process clarified.
4. Microinsurance agents/brokers created (CBOs included).
5. Prototype product developed.
6. Policy contracts simplified.
7. Performance Standards formulated.
8. Performance Reporting established.
9. MBA chart of accounts established.
10. Trainings on MI Advocacy and MI public seminars rolled out nationwide in 16 regions.
11. Circulars on Alternative Dispute Resolution for MI (ADReM) issued.
12. Training on Conflict mediation conducted.
**DEFINITION OF MICROINSURANCE**

Insurance Code (RA 10607), as amended

**MICRO INSURANCE**

- **Daily Contributions/premiums**
  - not more than 7.5 percent of the current daily minimum wage rate
  - (P35.00)

- **Guaranteed benefits**
  - not more than 1000 times of daily minimum wage rate
  - (P466,000.00)

- **Simple, easy to understand, few or no exclusions**
WHO CAN PROVIDE MI?

All entities licensed by the Insurance Commission

- Life insurance companies
- Non-life insurance companies
- Mutual Benefit Associations
- Cooperative Insurance Societies
WHO CAN SELL MI PRODUCTS? (IMC 1-2010 and CL 6-2011)

**Microinsurance Agents**
- Individuals or entities licensed by the IC to obtain or solicit microinsurance on behalf of a duly licensed insurance entity
- Not required to take the regular licensure examination agents
- Shall undergo an approved microinsurance training program and pass a qualifying examination

**Microinsurance Brokers**
- Individuals or institutions licensed by the IC to solicit microinsurance products on behalf of clients
Before 2009

- MI products - mostly credit life insurance
- 7 licensed MI-MBA
- Very few commercial insurance companies with MI
- No MI agent category

2013

- 89 MI products approved (38 Life, 25 Non-life, and 26 MBAs)
- 21 licensed MI-MBAs
- 37 insurance companies (18 life and 19 non-life)
- 124 licensed as MI agents (34 Rural Banks and 90 individuals)
Before 2009

- 3.1 million individuals covered under MI
- Insurance penetration was only 1.02% of GDP
- Insurance density Php878 ($19): Life Php654 ($14), Non-life Php224 ($5)
- Estimated life insurance coverage was 13.90% of 91 M population

2013

- Roughly 27.96 million low-income Filipinos are covered under MI
- Insurance penetration was 1.77% of GDP
- Insurance density Php2,093 ($47): Life Php1,816 ($41), Non-life Php276 ($6)
- Estimated life insurance coverage was 23% of 97.6 M population
The Way Forward

RFPI will continue to support the Philippines in further MI market development, specifically on

- Insurance providers to develop tailor-fit micro/insurance products for MSMEs
- Platforms in promoting awareness of MSMEs to microinsurance as a solution to threats of business continuity

Proposal for APEC – to include microinsurance advocacy and awareness in its policy initiatives and programs.

- The full market study report will be uploaded to the websites of RFPI www.inclusiveinsuranceasia.com and ProGED www.greeneconomy.ph
Thank you!
As a federal enterprise, GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable development.

Published by
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
Registered offices, Bonn and Eschborn, Germany

Regulatory Framework Promotion of Pro-poor Insurance Markets in Asia (RFPI Asia)
RFPI Asia Office, Insurance Commission Complex
1071 United Nations Avenue, Ermita, Manila 1000
T +632-3531044-45
F +6323531043
E antonis.malagardis@giz.de
I www.inclusiveinsuranceasia.com

Responsible
RFPI Asia/ProGED

Author(s)
RFPI Asia/ProGED

Photo credits
© GIZ/RFPI Asia

Layout
RFPI Asia/ProGED