



Office of the President of the Philippines
NATIONAL ANTI-POVERTY COMMISSION

MICROFINANCE INDUSTRY ADVISORY

on

Microinsurance

Members, NAPC
Heads, Microfinance Institutions
Other Concerned Entities and Stakeholders
11 October 2007

Pursuant to the Social Reform and Poverty Alleviation Act of 1997 (Republic Act 8425), the National Anti-Poverty Commission (NAPC) is mandated to coordinate, oversee and monitor the implementation of poverty reduction policies and programs of the government, including those related to the strengthening of the microfinance industry. In support of the social reform agenda and in line with the objective of establishing an enabling environment for microfinance, the NAPC is issuing Industry Advisories to ensure that sound, viable and sustainable microfinance programs and practices are observed among microfinance institutions, concerned entities and other stakeholders in the delivery of microfinance services.

1. Corollary to the Industry Advisory entitled “*Disclosure of Financial Charges in the Provision of Loans/Credit and Provision of Insurance*” dated November 21, 2005 containing relevant provisions of the Insurance Code (PD 612, 1974) related to the regulation of insurance services and the types of services that can be provided by insurance providers such as the mutual benefit associations (MBAs), this advisory is being issued to guide concerned entities in facilitating the provision of microinsurance to the poor and disadvantaged in accordance with pertinent laws and regulations:

a) Rationale for Microinsurance

The poor and low income households are vulnerable to risks including those associated with illness or injury, death of a family member and manmade or natural disasters. Coping with these risks can deplete their savings, force them to sell productive assets, incur more debt or default on loans. Thus, their access to services that help them handle and better cope with risks need to be enhanced to help them manage their cash flows better and improve their earning abilities. In view of this, microinsurance has been promoted as a strategy to address the specific requirements of the poor for managing risks.

b) Definition and Purpose

Microinsurance refers to the insurance business activity of providing specific insurance products that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune (Insurance Commission (IC) Memorandum Circular 9-2006).

A microinsurance product is an insurance policy with the following features:

- ✓ maximum amount of premium computed on a daily basis shall not exceed 10% of the daily minimum wage rate for non-agricultural workers in Metro Manila
- ✓ maximum amount of life insurance coverage shall not be more than 500 times the daily minimum wage rate for non-agricultural workers in Metro Manila.

c) Basic Conditions in Providing Microinsurance

Provision of microinsurance services should consider the following:

- ✓ Simple insurance instruments;
- ✓ Low transactions cost;
- ✓ Affordability;
- ✓ Transparent benefits/payments;
- ✓ Flexible payment schedules to improve participation; and
- ✓ Location close to the client base

The above conditions are contained in IC Memorandum Circular 9-2006 which requires that microinsurance certificates should clearly identify the face amount, benefits, and terms of the insurance coverage; and that microinsurance providers should ensure that such transactions are easily understood by the insured; have simple documentation requirements and involve easy manner and frequency of premium collections which coincide with the cash-flow of the insured.

d) Microinsurance Delivery Schemes

Microinsurance may be delivered through any of the following schemes:

- ✓ Direct service delivery – existing insurance companies directly provide microinsurance services
- ✓ Partnering and tie-ups – microfinance institutions link up with existing insurers to provide insurance services to their clients
- ✓ Mutual and cooperative models – microfinance clients bond together to form mutual benefit associations or cooperative insurance societies to meet their microinsurance needs

2. The NAPC, in coordination with the Insurance Commission, enjoin concerned entities to observe and adopt the preceding policies to facilitate and safeguard the provision of microinsurance to the poor and disadvantaged sector.
3. Copies of IC Memorandum Circular 9-2006 and the Insurance Code can be accessed at www.napc.gov.ph (Microfinance Section). Information on microinsurance can also be accessed at www.insurance.gov.ph.

Please be guided accordingly.



SECRETARY DOMINGO F. PANGANIBAN
Lead Convenor