



APRACA FinPower Program

Status of Microinsurance in Southeast Asia:

(The Cases of Cambodia, the Philippines and Vietnam)



By:

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Message

MICROINSURANCE is generating considerable interest for many development-oriented financial institutions, particularly MFIs today. For these institutions, the question is not anymore on whether or not they will venture into microinsurance, but rather on how and in what way they should do so. Several institutions and organizations have forged partnerships to uphold stronger policy advocacy and create conducive environment for microinsurance operations.

In this context, we take honor in publishing this paper with the goal of outlining the microinsurance landscape in Southeast Asia. Being a regional association that promotes cooperation and facilitates rural exchange of information and expertise in the field of rural finance, the Asia-Pacific Rural and Agricultural Credit Association (APRACA) supports CARD Mutually Reinforcing Institutions (CARD MRI) in its continuing research and policy advocacy to roll out more systematic microinsurance processes and operations, not only in the country but in Southeast Asia as well.

Today, we look into the traces microinsurance has painted in Cambodia, Philippines and Vietnam. These countries bear much commonality within their rich heritage of distinctive culture and long history of strife and triumph. Confronted by economic and social challenges, these countries have recognized the role of microfinance in their struggle to uplift the lives of the marginalized rural sector. In recent years, microfinance institutions in these countries have also expressed interest in product diversification and integration of more financial services to their clients – microinsurance being the latest. Their partnership with RIMANSI has also brought positive results in terms of plotting a strategic approach to emerging concerns like policy and regulatory environment, motivation, processes, operations and delivery.

Mr. Pham Thanh Tan
Chairman
APRACA

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This book was commissioned by the Asia-Pacific Rural and Agricultural Credit Association (APRACA) to CARD MRI in its goal to promote awareness on the recent breakthroughs and challenges faced by microinsurance. APRACA supports microinsurance promotion in providing sustainable social protection to the low-income population, thereby contributing to poverty reduction.

The authors thank APRACA in its interest to spread awareness on microinsurance through the experiences of implementing organization and institutions in Cambodia, Vietnam and Philippines.

We also pay much tribute to CARD MBA and RIMANSI for their experiences and advocacy that have inspired many and stirred passion to brave the path less taken – that investing on masses can uncover the unknown. Finally, we toss feathers to all advocates of social transformation who create small things but with greater impact and who see and believe in people whom others less see and believe in.


JAIME ARISTOTLE B. ALIP


ENRIQUE L. NAVARRO



MAE M. CATIBOG

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Foreword

Fledgling – this is how microinsurance has taken the stage in the social and economic development context. But like a bird which fervently works for its fledglings, microinsurance is envisioned to feed the poor sector's hunger for affordable protection from unforeseen perils and its impacts. APRACA reckons the potentials of microinsurance in poverty alleviation. Microinsurance helps reduce the poor's vulnerability to risk and proposes simple and easy to understand coping strategy in times of stress events, thereby preventing them from a helpless plunge into "poverty traps".

Today, as we look further into the breakthroughs and challenges faced by microinsurance in Southeast Asia, we recognize the significant contributions and experiences of RIMANSI and CARD MRI in selflessly providing much-needed technical assistance to other institutions who strive to offer microinsurance. This comes with a hope that all these efforts spring toward a more synergistic movement that creates a productive and risk-prepared society with microinsurance as an integral component.

We have come to an age when insurance is seen as an option to secure people from unexpected perils, thus reducing vulnerability to its unforeseen impacts. While the industry has noted a boost in its market, most commercial insurance have focused their market to the high-earning people working in the formal sector, leaving behind the traditionally excluded sector – the low-income population. Seeing this, many development organizations and institutions have ventured into microinsurance – the provision of a variety of insurance services to the informal and low-income segment.

Microfinance, being the provision of a broad range of integrated financial services from credits to savings, education, and money transfers particularly to low-income households, has become an active channel in bringing microinsurance to the poor. Many microfinance institutions (MFIs) across Southeast Asia have already set up their own microinsurance schemes with some technical assistance from the RIMANSI Organization for Asia and the Pacific. RIMANSI is a Philippine-based microinsurance resource center composed of professionally-managed Mutual Benefit Associations (MBAs). Experiences and good practices of these MBAs are shared to MFIs who aspire to diversify their services and to further extend its market through microinsurance.

In its interest to further examine the developments of microinsurance as well as its contributions to Southeast Asia, the Asia-Pacific Rural and Agricultural Credit Association (APRACA), a regional association promoting cooperation and facilitating rural exchange of information and expertise in the field of rural finance, has commissioned CARD MRI in the Philippines to outline the status of microinsurance in the region with a particular focus on the experiences of Cambodia, Philippines and Vietnam. By doing so, it is hoped that this paper leaves an inspiration to other MFIs and other organizations to venture into the provision of insurance to the rural poor. The process may be painful indeed, but together, the fledgling microinsurance industry will soon be an adult with its plumage attracting others in synergy.

This is for all advocates of social change. Let's continue serving the rural populace!

Benedicto S. Bayaua
Secretary General, APRACA

Acronyms and Abbreviations

AIDS	Acquired Immunodeficiency Syndrome
ALIP	All-Loans Insurance Package
APRACA	Asia-Pacific Rural and Agricultural Credit Association
BOAT Program	Build, Operate and Transfer Program
CARD MRI	CARD Mutually Reinforcing Institutions
CBHI	Community-based Health Insurance
CBI	Community-based Insurance
CDRAP	CARD MRI Disaster Relief Assistance Program
CHC	Cambodian Health Committee
FGD	Focused Group Discussion
FSDP	Financial Sector Development Plan
FSDS	Financial Sector Development Strategy
GDP	Gross Domestic Product
GTZ	German Agency for Technical Cooperation
HIV	Human Immunodeficiency Virus
IC	Insurance Commission
IEC	Information, Education and Communication
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
MAF	Mutual Assistance Fund
MAI	Mutual Assistance Insurance
MBA	Mutual Benefit Association
MDGs	Millennium Development Goals
MEADA	Measure for Economic and Accelerated Development for All
MEF	Ministry of Economy and Finance
MFI	Microfinance Institution
MIS	Management Information System
MMF	Members' Mutual Fund
MOLISA	Ministry of Labor, Invalids and Social Affair
MVAH	Motor Vehicle Accidental Hospitalization
NBC	National Bank of Cambodia
NGO	Non-Government Organization
RGC	Royal Government of Cambodia
SEA	Southeast Asia
STD	Sexually Transmitted Disease
TB	Tuberculosis
TYM	Tao Yeu May
VFC	Vision Fund Cambodia
VIP	Vision Insurance Program
VND	Vietnamese Dong
WVC	World Vision Cambodia

1. Spectacles of Microinsurance

We are now in an era when the perception of the poor as a non-profitable sector has shifted to the spectacles of their potentials. The emergence of the microfinance industry in developing countries has led to a clearer vision of the reinforcement strategies more effective for the low-income groups to become sustainably productive. At the same time, this has peeled off the high vulnerability of the poor from the risks constantly confronting them.

Churchill (2006) defined risk as “the chance of a loss or a loss itself”.¹ Loquinario (2009) related that risks can be classified into three (3): life-cycle, structural and crisis risks². Predominantly, risks include illness, accidental death and disability, sudden loss of employment, theft, lack of food, agricultural losses and disasters. The gravity of these perils tends to be likewise greater when there is absence of savings³. When such crises arise, a usual coping mechanism is to ‘borrow from a moneylender or a microfinance institution’ whilst others might ask relatives or friends to help. Some have access to formal insurance services⁴.

In coping with risks, the poor occasionally liquidate their assets. However, problems befall when assets are sold much lower compared to its actual or current cost or market values, especially when quick money is needed. Sometimes pawning is also a resort – this is “extremely expensive” since most often interest rates are highly charged at 20-30 percent monthly⁵.

Churchill (2006) has listed some of the most sought after, however not at all times possible, coping strategies to “shocks and stress events”, particularly by low-earning population. These include the following:

- diversifying income sources
- building assets by saving money, stocking food and investing in housing and health care
- strengthening social networks
- participating in reciprocal borrowing and lending systems, welfare associations and other informal group-based insurance systems
- enrolling in formal insurance or pension schemes or other formal social security systems
- managing money well by controlling consumption and maintaining access to multiple sources of credit

These options are broadly adapted; yet when there is limited liquidity, the poor usually deal with “shocks and stress events ex post” – picking up and mending the pieces after such events⁶.

Simply put, poor families pose the highest vulnerability to risk-driven shocks, yet they are the least able to cope after such perils⁷. This is where the need for microinsurance comes in.

This paper was commissioned by the Asia-Pacific Rural and Agricultural Credit Association (APRACA), a regional association promoting cooperation and facilitating “rural exchange of information and expertise in the field of rural finance”,⁸ to determine the current status of microinsurance in Southeast Asia and the emerging developments relative to microinsurance. The study primarily looked into the experiences in Cambodia, the Philippines and Vietnam and cited microinsurance programs by implementing institutions in each country which employed a variety of models and delivery frameworks.

Accounts on this paper are highly based on the review of existing researches and other related literature. This study also enumerated organizations and institutions pioneering microinsurance developments in Southeast Asia as well as their partners in the three countries under study, giving a particular look into the contributions of RIMANSI Organization for Asia and the Pacific, Inc., a Philippine-based resource center for microinsurance and the experiences of CARD Mutual Benefit Association (CARD MBA) in the Philippines.

In determining the status of microinsurance in Southeast Asia, particularly in Cambodia, the Philippines and Vietnam, the study focused on the following factors relative to the promotion of microinsurance in each country:

- socio-economic structure
- market condition
- legal framework
- national development plan
- advocacy

Microinsurance: an emerging strategy in protecting the poor

In a world where perils are inevitable and apparently a mainstay in life's center stage, insurance has been proven valuable in reducing the cost of coping with a crisis when it occurs. Insurance, with its "risk-pooling" mechanism eases "vulnerability as households replace the uncertain prospect of losses with the certainty of making small, regular premium payments." In essence, people within the "risk pool who do not suffer a loss during a particular period", basically "pay for the losses experienced by others".⁹ In such light however, one must not overplay the development impact of insurance. Insurance alone "cannot eliminate poverty". Still, in its availability to poor populations together with other risk-management strategies, it can stand effective in contributing to the general context of poverty alleviation.¹⁰ Studies have conveyed the appetite of commercial insurance to cater to the formal and working populations, traditionally excluding the informal sector – self- and un-employed population – segment with perceived "limited purchasing power and a high-risk market segment".¹¹ It is a fact however, that low-income households lack the capacity to procure high-premium insurance plans.

To address this concern, some microfinance institutions and providers such as "credit unions and non-governmental organizations have attempted to implement their informal microinsurance schemes such as in-house mutual aid or benefit funds, 'credit life insurance' and similar schemes that intend to provide some form of risk protection to vulnerable low-income clients."¹²

In strengthening fiscal systems development, health systems and social security systems, microinsurance promotion becomes an integral element today. Poor people struggle incessantly to make their lives better. Repeatedly confronted with financial pressures, the poor recognizes that shocks can easily wear down their hard-earned gains. These result to a meandering flight out of poverty. The role of microinsurance is to lessen the impacts of those risks.¹³ This therefore manifests the very idea of microinsurance – recognizing that *vulnerability* is a key aspect of poverty.¹⁴

The figure above shows an 'escalating downward spiral' representing the path traveled by low-income groups from poor to poorer.¹⁵ This best illustrates the social and economic impact of poverty underpinned with vulnerability to risk. Problem lies not only to financial losses during exposure to risks, but also to perpetual anxiety about whether or when a peril might occur – leaving the poor unproductive. They tend to miss out on income-generating opportunities halted by unexpected menace.¹⁶ This is how the poor helplessly plummets to this so-called "poverty traps"— being stuck with poverty where there is difficulty to or no escape.¹⁷

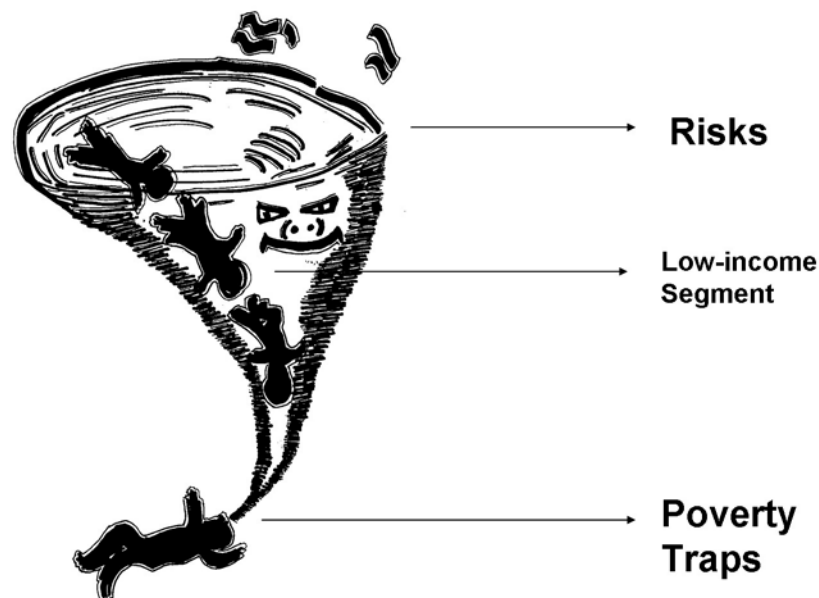


Figure 1. Escalating Downward Spiral of Poverty

(Illustration by Marife O. Pabulayan-Abela)

As Churchill puts it, “Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.” This definition is practically the same as how economics jargon would put regular insurance, except for the clearly stipulated target market: low-income groups.¹⁸

Standing from a developmental perspective, microinsurance provision is a logical headway towards poor people empowerment. It is a new means of unburdening the poor from bewildering blows to their financial situation. As to how commercial insurance provides stability and security to people living in a more developed country, is microinsurance’s parallel approach in the lives of people living within and below poverty line. It serves as a “safety net” effectively providing coverage from the odds of plunging to a poverty situation where there is no escape.¹⁹

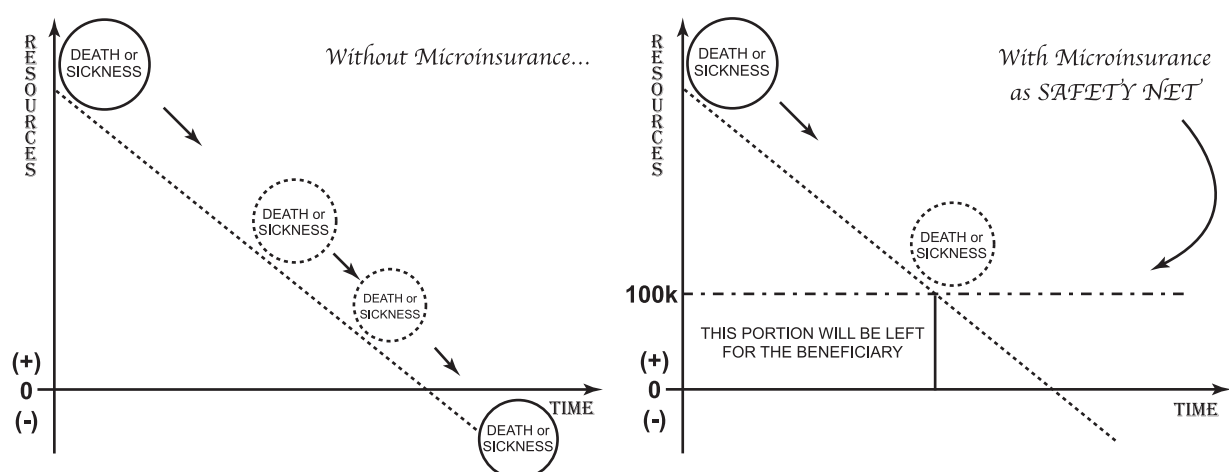


Figure 2. Microinsurance as Safety Net for Poor Households

(Adapted from CARD MBA's PowerPoint Presentation on Microinsurance Management)

Figure 2 shows how microinsurance – just as the whole idea of insurance – provides cushion to clients, particularly to low-income households against a swift and hard fall after a mishap.

Development experts across continents regard microinsurance as a potent tool for poverty reduction. It enables the low-income households “to pool their risks” and thus “prevent them from falling deeper into the ‘poverty trap’ due to unforeseeable” but inevitable shocks.²⁰ In the same way, it allows a win-win condition for both the insurers and the insured – suggesting a valuable means to reduce the poor’s vulnerability at the same time permitting insurers and their agents a venue to “expand their markets to low-income households”.²¹ This corresponds to Churchill’s presentation of the two facets of microinsurance – being an extension of social protection to disadvantaged groups in the lack of apt government strategies, at the same time offering an imperative financial service to low-income groups by setting up a suitable business model making the meager population a “profitable (or sustainable) market segment for commercial or cooperative insurers”.²²

Yet these two facades meet in much commonality. Whether one looks at the “social protection or at the market-based” aspect, the essence of (micro) insurance scheme, being its key operations, will be basically similar. This is the very illustration of Churchill’s analogy of microinsurance with the two-faced Roman god of gates and doors, also the gods of beginnings, Janus – having two faces but one body.²³



Figure 3. The Two Microinsurance Perspectives

(Illustration by Marife O. Pabulayan-Abela)

Among the many definitions of microinsurance, RIMANSI’s definition is simplest – microinsurance being the “provision of risk protection services to low-income population and communities” in a sustainable basis.²⁴ Being a foremost advocate and resource center for microinsurance in the Philippines and in Southeast Asia, RIMANSI Organization for Asia and the Pacific recognizes “microinsurance as the third pillar in providing comprehensive financial services to the poor, the first two pillars being microsavings and microcredit”.²⁵

RIMANSI is a non-stock, non-profit corporation composed of professionally-managed mutual benefit associations (MBAs) that “provide affordable, comprehensive, quality risk protection to the poor.” It mainly promotes the mutual benefit association (MBA) approach popularized by CARD MBA in the Philippines “as an effective and sustainable means to microinsurance development”.²⁶ RIMANSI was able to establish its place as a premiere advocate of microinsurance for the grass roots sector and has formed strategic collaborations in Cambodia, Indonesia, Philippines and Vietnam. This book regards the contributions of RIMANSI to microinsurance in Southeast Asian countries, being a resource center on microinsurance, sharing needed technical, operational and financial expertise.

Microfinance Institutions as microinsurance providers

The beauty of microinsurance is the variability of channels to which it can be delivered.²⁷ Generally, microinsurance providers can be labeled as ‘formal’ or ‘informal’. The table below as defined by CARD MBA, Philippines briefly presents the key distinctions between formal and informal microinsurance providers.

Table 1. Key Distinctions Between Formal and Informal Microinsurance Providers in the Philippines

Formal Microinsurance Provider	Informal Microinsurance Provider
Well-defined forms of risk protection	Community-based and unregistered with the Insurance Commission (IC) of the Philippines or any regulatory body thereof
Offered by duly registered and highly regulated companies	Its forms, terms and conditions are simple and intuitive in nature
Terms and conditions are guided by the principles of actuarial science	It is established by way of traditions and guided by notions of responsibility and solidarity in time of need of almost anyone in the community
Delivery of products and services is highly organized and systematically managed by insurance professionals	The providers are both formal and non-formal organized groups that are mostly self-regulating

Source: *Managing Microinsurance Program PowerPoint Presentation*, CARD MBA.

Churchill (2006) relates that microinsurance scheme can be facilitated by an organization e.g., a mutual benefit society or a set of institutions working jointly. One such example is insurers collaborating with microfinance institutions to channel insurance to the low-income sector.²⁸ Based from its experiences, CARD MBA shares the risk involved in providing informal microinsurance. First is the absence of “actuarial and business standards and staying out of the supervision of a regulatory authorities.” In the same manner, by “combining microfinance or microcredit operations with microinsurance will result to covariant risks,” loss of business focus and lack of proper product costing.²⁹

CARD MBA also relates how some lending institutions informally provide microinsurance, which include the reliance on group liability, collection from the household members and writing-off loans. When a member or legal dependent dies, out-of-the-pocket contributions from other members are also an option for other lending institutions. However, these types of alternatives are “more expensive on the part of the contributing members” and incur “unreliable collection resulting to non-payment of promised benefits.”³⁰

This study looks closer into MFIs, particularly those mentioned in this study, as microinsurance providers and how they are able to deliver the microinsurance products therein. In Southeast Asia, various stakeholders in the finance industry, i.e., non-government organizations (NGOs), microfinance

institutions (MFIs), and donors are becoming highly interested in microinsurance.³¹ An emerging link between MFIs and microinsurance has been noted to exist in Cambodia, Vietnam and the Philippines.³² MFIs and organizations alike serving the poor have come to realize that their clients need a variety of financial services other than loans. They have recognized the idea that risk protection for the poor is a development imperative which needs to be integrated into any comprehensive approach to poverty alleviation.

Recent studies have illustrated that low-income groups are the most vulnerable to risks and at the same time the least able to acquire sufficient risk protection even in the presence of informal risk-coping mechanisms.³³ Oftentimes, informal risk-coping measures temper only a small portion of damages, thus lacking protection from a series of natural or even man-made stress. These threats confine the poor clients' liquidity, cash flow and earning capabilities therefore missing repayment schedules – bad news for any money-lending or microfinance institution.³⁴

Literature on microfinance states that “microinsurance appears to meet both social and commercial objectives of most microfinance programs.” Behind the lenses of social development, microinsurance can help low-income groups rise from the burden resulting from catastrophic events. Commercial perspective, on the other hand, slants to the idea of microinsurance as additional product, and once properly handled, can be profitable. In this condition, integrating microinsurance into microfinance programs can improve quality of loan portfolio since death or illness of a client or a family member often results to a delinquent loan. Increasing numbers of MFIs also pursue microinsurance perceiving potentials for new markets, enhanced customer loyalty and improved competitiveness.³⁵

Extensive networks and structured system on delivering financial services to disadvantaged clients put MFIs in a unique position to offer microinsurance. Possessing ‘grass roots information about their clients helps MFIs in developing timely products and responsive delivery mechanisms. They have acquired skills and capabilities essential in building infrastructure for the efficient and cost-effective mode of facilitating microinsurance products. Moreover, the “problem of adverse selection and moral hazard may be reduced with the screening mechanisms and social networks that MFIs have already set in place. It is, thus, not surprising that many pioneering attempts to provide microinsurance have been closely linked to microfinance programs and MFIs.”³⁶

In Southeast Asia today, particularly in the microfinance industry of Cambodia, the Philippines and Vietnam, microinsurance has become an integral component of poverty reduction, being able to provide cost effective protection to the poor.³⁷

2. Microinsurance in Cambodia: Towards Strengthened Policy Advocacy

*“Microfinance operation helps people improve their lives...
while microinsurance helps them protect the gains
from microfinance operation...”*

MR. ALEXANDER M. DIMACULANGAN
General Manager, CARD MBA

The image of Cambodia to the international community may always be linked with years of bedlam the war has brought, virtually destroying the social and economic milieu of the country.³⁸

Cambodia's recent history of civil unrest has left the country one of the poorest countries in the Asia-Pacific region, recording more than 30 percent of its 14 million citizens living below the poverty line. Years of internal conflict and isolation has left Cambodia a poor bequest for development, putting its financial sector in peril, lacking banks and limited by a weak rural finance network. This was until the signing of Paris Peace Accords in 1991 leading to the reconstruction of the nation's physical, social, human and economic infrastructure and regaining dignity of its people.³⁹

Since then, Cambodia's economy has shown resilience amidst tough international economic condition noting a 6.3 percent economic growth and a virtually zero inflation rate in 2001. This has continued until an unexpected economic strength in 2005 and 2006, recording a GDP growth of 13.5 and 10.8, respectively. In 2008, the agriculture, garments and tourism industries has projected further GDP growth.⁴⁰

Notable achievements of the country's fiscal economy have led to a sustained growth over the past ten years; however, difficult development challenges are still sitting on its plate. Lacking sufficient resources, the Royal Government of Cambodia (RGC) is not able to adequately invest in education, health and basic physical infrastructure. The country is still left with the social vestiges of the civil dispute: a legacy of disadvantaged groups – former refugees, internally displaced people, former child combatants, war widows, orphans, and people disabled during the wars or by land mines – struggling to escape from the terror of the dark past. Researches have noted the prevalence of child labor, women and children trafficking, and the growth of the commercial sex industry – a picture so exigent, clearly displaying the need to restore social capital in Cambodia.⁴¹

MFIs as microinsurance providers in Cambodia

Cambodia's financial sector is relatively underdeveloped, lacking a comprehensive network of banks and bounded by weak rural finance linkage. There are 17 commercialized and specialized banks operating only in Phnom Penh and major provincial towns, while the rural population predominantly lacks or even in some cases has zero access to formal financial services. Among the 14.2 million people (nearly 2.9 million families) in Cambodia, about 286,000 clients are receiving commercial banking services and 500,000 families are credit-recipients of MFIs. In business, the micro and small enterprises incur a demand amounting to US\$ 100-125 million, and only 45 to 55 percent of this is supplied by existing financial service providers.⁴²

The banking system shows significant liquidity, however with limited lending activities. Aside from the formal banking systems, other financial systems, whether formal or informal are present and active. These

include microfinance institutions among the formal financial system. While MFIs are active lenders, they face liquidity constraints and informal financial sector is estimated to be much larger and more active. Nevertheless, from its unsustainable, donor-financed beginnings in early 1990s – sustained by NGOs’ microcredit programs – microfinance in Cambodia was communally “transformed by donors, international partners, and local stakeholders” into an industry driven by “profitable, regulated financial institutions”. In Alip’s and David-Casis’ words, microfinance has become arguably the most sophisticated segment of Cambodia’s fiscal sector.⁴³

Despite these, MFIs are still recognized as one of the leading providers of formal financial services to Cambodia’s poor. MFIs in Cambodia, like in other countries, have also determined a demand for insurance from their grassroots clients, although on a small scale. They have recognized that in attaining sustainability, they have to take measures in insuring their clients’ ability to pay their loans. Hence, pilot projects of health insurance have been implemented and met with success, one of which is the GRET-SKY Health Insurance Project. “GRET-SKY is a community-based health insurance (CBHI) program” complementing the “microcredit activities of AMRET,” a registered MFI. In recent years, two other licensed MFIs in Cambodia have started microinsurance scheme in alliance with their mother NGO – MEADA and Vision Insurance.⁴⁴

Other Cambodia-based MFIs have articulated an interest in integrating microinsurance with their programs. This, however, comes with the option of stalling until their Government has issued a regulatory framework for microinsurance.⁴⁵

Supporting these initiatives and addressing the need for a broadened, competitive but practically sound financial system, the Royal Government of Cambodia (RGC) has formulated the Financial Sector Development Plan (FSDP) for 2001-2010 and the Financial Sector Development Strategy (FSDS) 2006-2015, a long-term strategy intended to develop Cambodia’s financial sector. The strategy was created to pursue the general objective of “supporting the development of a sound market-based financial system to support resource mobilization, effective financial resource allocation, and broad-based sustainable economic growth.”⁴⁶

Specifically, as indicated in Alip’s and David-Casis’ study, the long-term development strategy includes the following:

- Appropriate legal, institutional and policy foundations to promote market-based finance;
- Competitive, integrated and efficient banking system;
- A viable, pro-poor and effective microfinance system that enables the poor to enhance income and reduce poverty;
- **An insurance sector that protects businesses and individuals from catastrophic events and a pension system that will support retirement planning;**
- Financial markets; and
- Openness to financial product and institutional innovation that creates more balanced financial structure, increases the depth of financial sector and promotes competition in the context of financial stability.⁴⁷

The list above reflects Cambodia’s efforts in pursuing a nation with strong financial backbone with a particular attention to microfinance and the provision of financial services to low-income households. As stated in Alip’s and David-Casis’ study,

“The FSDS 2006-2015, in fact has revised the delineation of the sector in the FSDP 2001-2010 as “*Rural Finance*”, to become more inclusive, and considers the sector as “*Microfinance*”. This is “to encourage the diversification of risk and growth of diverse

products, as well as becoming more inclusive for those in urban areas.” Since 2001, the microfinance sector has developed impressively. Today, there are 17 licensed MFIs with good market performance, and an increasing number of registered MFIs. In addition, some MFIs have graduated from MFI status to bank status. These institutions continue to focus their services towards Cambodia’s poor and low-income households.”⁴⁸

While MFIs in Cambodia takes a full spin penetrating Cambodia’s financial market, they also take on product diversification which includes the provision of microinsurance. Moreover, not just MFIs recognize the potentials of microinsurance, but also its Government takes on extra mile in establishing a favorable policy environment for the providers and the clients. Just as highlighted in the fourth bullet, the long-term development strategy intends to strengthen insurance programs to protect not only businesses but also its people. This manifests its recognition of the critical role of insurance in the social development context.

Breakthroughs of microinsurance industry in Cambodia⁴⁹

The birth and recognition of microinsurance in Cambodia is clearly a manifestation of its fiscal economy blossoming once again. It is also the country’s way of recognizing its limitation in terms of completely addressing the health and social security needs of its people, thus, embracing the potential of microinsurance on tying the loose ends. Below are noted breakthroughs arising from a variety of initiatives to promote microinsurance in Cambodia, as related in a study conducted by Alip and David-Casis:

Provision of risk protection services to low-income households. Breaking from the habit of pigeonholing the poor as non-profitable sector – thus traditionally excluding them from formal financial services – has revealed the logical benefits of channeling microinsurance to their segment. The pilot projects like GRET-SKY has confirmed the demand for insurance products from the low-income groups, and that such can be served to them in a way that attends to the client’s call for services at the same time to the institution’s need to support its operations.

Increasing the MFI’s competitive advantage. In recent years, a growing competition in Cambodia’s microfinance market has been noted. The MFIs’ decision, particularly CHC Ltd. and VFC, has led them to a competitive advantage, being the first to offer this type of service to clients – offering a better risk protection alternative to the poor, while also protecting their own loan portfolios.

Simple start-up and implementation. The MEADA and Vision Insurance process implementation is way easy since its full integration into the MFIs’ existing operational structures. While CHC Ltd. introduces and markets MEADA along with its regular credit savings products, VFC promotes Vision Insurance as additional benefit to its clients. Further, additional underwriting is needless since the MFIs’ eligibility criteria for borrowing also act as a pre-selection method. Premium collection is administratively simple and client-oriented. MEADA’s single premium is paid during loan disbursement while Vision Insurance’s monthly premiums are collected with VFC loan repayments.

Flexible management and institutional arrangement. Regulatory uncertainties lodged the microinsurance pilot projects onto the NGOs instead of onto the MFIs as its initial objective – although implementation was subcontracted to MFIs. Yet, in anticipation of the Sub-Decree on Microinsurance, the key elements for operating a microinsurance business – the basics of an organizational structure including manpower complement set to serve full-time, the operational systems, the financial systems and basic management information systems – had been primed. Such, if need be, will enable the pilot projects to easily graduate into independent organizations – either as microinsurance companies or community-based insurance schemes to conform to government regulations.

Strengthening institutional capacities to handle microinsurance. In implementing microinsurance schemes, MFIs also face a different set of challenges requiring different set of competencies. RIMANSI plays a critical role in providing the needed technical, operational and financial expertise with regard to addressing MEADA's and Vision Insurance's business aspect of the microinsurance operations. RIMANSI, through its business process and microinsurance model helped MFIs to deal better with risk management intricacies including premium collection, management of covariant risks, moral hazard and adverse selection due to separate but synergetic relationship between microinsurance and microfinance operations.

Streamlined claim procedures. VFC has designed a laudable system in which insurance benefits are delivered within 48 hours from notification by the claimant of the Community Bank Management Committee. After validation, payments are made through the Vision Insurance petty cash which is managed by the VFC cashier at each branch. The monthly consolidated claim payments are then forwarded to the VFC Head Office for posting in the accounting system. In social services like insurance, expediency and speed are beneficial for both the clients and the institution as these illustrate the benefits of the program.

Consumer satisfaction and community impact. Both MEADA and Vision Insurance have helped raise community appreciation on the need to prepare for future emergencies. The typically pessimistic view on insurance as early preparation to death or illness was avoided since the marketing style is founded on securing the family's future. The insured member's claims are processed the soonest possible time and paid out during funeral observance attended by the MFI's officers and staff. This increases household and community awareness on microinsurance and illustrates how the MFIs concern for their clients, their households and communities.

Issues and concerns affecting the progress of microinsurance in Cambodia⁵⁰

Suffusing Cambodia's emerging microinsurance industry are concerns pertaining to regulatory ambiguities and perceived policy gaps that bewilder efforts to deliver insurance to poor and low-income populations. Below are the microinsurance issues recorded in the study conducted by Alip and David-Casis.

Lack of regulatory framework. Despite the existence of insurance law in Cambodia, the general framework of the insurance regulatory system is yet to be in place. The law leaves many gray areas to be clarified in order to provide transparent guidance to insurance stakeholders and intermediaries. Yet, in the absence of a regulatory framework for microinsurance, the Royal Government of Cambodia's (RGC) Financial Sector Development Strategy (FSDS) 2006-2015 identified this as one of its immediate priorities.

In the FSDS (and as cited by Alip and David-Casis), it is specifically stipulated that the government aims to *"introduce a special system for regulating and supervising the activities of its microfinance institutions that seek to offer insurance protection to their members. Rules would be less restricted than would apply to normal insurance companies, and include parameters defining the types of institutions that may offer microinsurance products and set appropriate bounds to the scope of their operations."*

In the course of an ongoing process of regulations development, the International Finance Corporation (IFC) provides technical assistance to the Ministry of Economy and Finance (MEF).

In July 2008, the most recent – yet more comprehensive than the previous one – Sub-Decree on Microinsurance Business was presented to stakeholders. It defines microinsurance as "the provision of insurance contract to low-income population" indemnifying both "microproperty insurance and microlife and personal insurance." The Sub-Decree also "lays down prudential regulations and identifies the scope of operations of the microinsurers and the community-based insurance (CBI) implementers in Cambodia."

The proposed set of regulations is remarkable in its regard for CBIs; however, it needs to be completed to sufficiently provide guidelines for the start-up, “operations, monitoring and evaluation of CBI schemes.” In this regard, Alip and David-Casis emphasized that...

“...appropriate performance standards must be provided, otherwise, many well-meaning NGOs could get into microinsurance as CBIs without the right knowledge or without access to technical assistance, and fail. It is hoped that further refinements will be made on the draft in order to provide useful guidelines to prospective community-based organizations and other interested parties.”

Limited capacity to supervise and regulate microinsurance. The Insurance Division of the Ministry of Economy and Finance’s (MEF) Financial Industry Department regulates and supervises the commercial insurance industry. Based on the recommendations of the Sub-Decree on microinsurance, MEF will also be authorized to approve licenses pertaining to microinsurance operations. This however poses a problem given that MEF’s regulatory and supervisory capacity is still insufficient. In fact, mainstream insurance industry issues are giving MEF a handful (overly challenging to make it busy) to handle another scheme relatively new in the context of Cambodia’s development framework. Albeit some donors provide technical support to the MEF, the regulatory and supervisory capacities of its staff need to be reinforced, especially in the matter of microinsurance being an “emerging field where the benefit of regulation is little understood”, making the challenge all the more difficult.

Options for MFIs interested in microinsurance. The current legal framework defined microfinance as “*the delivery of financial services such as loans and deposits, to the poor and low-income households, and to microenterprises*”. In this provision the problem emerges from the interpretation of microfinance being “excluded from a range of financial sector activities including leasing, derivatives and gold and commodities dealing, the provision of cheque facilities and swap or forward dealing in foreign currencies.”

A perceived policy vacuum now becomes vivid in terms that “while microinsurance is not included in the definition of ‘financial services’ that a microfinance institution may deliver, it is also not among the financial sectors that are prohibited.” The Sub-Decree on microinsurance enforces a ‘sole business line’ requisite discouraging “microinsurers from engaging in other financial activities.”

In spite of these challenges, several MFIs such as the Cambodian Health Committee Ltd. and the Vision Fund Cambodia went aboard in channeling microinsurance products to low-income people.

The Cambodian Health Committee, Ltd.

The Cambodian Health Committee (CHC) is a non-profit, non-partisan and non-sectarian local NGO which had its beginnings serving Cambodia’s poor particularly providing health care services to its people suffering from tuberculosis and HIV/AIDS. In its long years of working for and with the poor, the organization recognized the link between disease and poverty, as well as the need for financial assistance for the health care of those affected. Hence, in 1994 CHC kicked off a microcredit program which was later transformed into an independent organization, the “CHC Limited Microfinance Institution (CHC Ltd.), in July 2005.” Below are CHC NGO and CHC Ltd.’s profiles as summarized in a study by Alip and David-Casis (2008).⁵¹

In the implementation process of CHC Ltd.’s credit and savings programs, the necessity of providing risk protection to its poor clients became vivid. Likewise clear is the need to protect the resources of CHC Ltd., recognizing difficulty of repayment when clients are challenged with unforeseen shocks. This now creates a link between CHC Ltd. and microinsurance – being able to offer low-income households “a more proactive and cost effective risk protection instrument compared to use of family savings, unplanned borrowing and selling of much-needed assets.”⁵²

Table 2. Organizational Profile, CHC NGO and CHC Ltd.

Issues	CHC NGO	CHC Ltd.
Background/History	Non-profit, non-partisan and non-sectarian Cambodian local organization which seeks to promote the health status and well-being of rural poor Cambodians.	Formerly a savings and credit program began by CHC NGO in 1994; incorporated and registered with the Ministry of Commerce in July 2005
Legal Structure	NGO	MFI
Legal Status	Registered with the Min. of Commerce	Licensed by the NBC in September 2005
Start of Corporate Operations	1994	2005
Areas of Focus/Core Business	Provision of health services	Provision of credits and savings services
Microfinance Products	n/a	Village Bank Loan; Individual Loan; Emergency Loan
Target Clients/Market	Poor people who are suffering from TB, HIV/AIDS and STDs and other dreaded diseases	Poor and low-income households; small entrepreneurs
Areas of Operations	Phnom Penh, Svay Rieng, Kampot	Kampot, Kep, Sihanoukville, Phnom Penh, Kandal
Scale of Operations	CHC programs are now reaching a million people in Cambodia, and CHC's approaches serve as international models of health care delivery and of how to link basic scientific discovery to fight TB and AIDS globally.	As of September 2007: Outreach – 5,949 clients; Loans outstanding – US\$ 1,638,097

Adapted from “Microinsurance in Cambodia” by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 47.

Prior to engaging with microinsurance, CHC Ltd. began with an evaluation of the feasibility of bringing such to Cambodia. The systematic process of developing a new financial product, being microinsurance, started with CHC Ltd.’s coordination with RIMANSI in 2005. As discussed earlier, RIMANSI is a Philippine-based resource center on microinsurance.⁵³

After a series of meetings and focused group discussions (FGDs) involving various key players, regulators as the Ministry of Economy and Finance (MEF) and the National Bank of Cambodia (NBC), MFIs, NGOs and their clients in particular, positive responses from MFIs and NGO expressing interest in product diversification through microinsurance are obtained. The Government representatives likewise voiced support to microinsurance pilot projects. Lastly, the clients expressed interest in risk protection services, implying a market for aspiring microinsurers.⁵⁴

Finally, in January 2007, the pilot phase implementation of the microinsurance program called MEADA, started. MEADA stands for Measure for Economic and Accelerated Development for All, but in Khmer it is equivalent to “mother”, capturing the “program’s objective of nurturing and protecting Cambodian poor families in the event of unexpected losses resulting from death.” It is to be noted that “MEADA is a microinsurance project of CHC NGO, however subcontracted to CHC Ltd. for implementation.”⁵⁵ Table 3 encapsulates the primary components and product features of the MEADA Program:

Table 3. Product Summary, MEADA Program

	Product Features and Policies
Microinsurance Type	Credit Life Insurance
Group or Individual Product	Group product
Term	Coverage is co-terminus with each loan. It begins on the effective date of the loan and ends when the loan is repaid in full or on the scheduled maturity date, whichever is earlier. Coverage also ends at the time of the borrower's death, or when the borrower reaches the age of 56.
Eligibility Requirements	<i>Borrowers:</i> must be aged 18-55 (existing CHC age limits) <i>Spouse:</i> must be aged 16-55, the 1 st recognized legal spouse and living with the client <i>Children:</i> must be aged 5-20 and living with the client (single or widowed parents may cover their children)
Voluntary or Compulsory	Voluntary for CHC Ltd. clients
Coverage/Benefits	Death of client: 100 percent of original loan amount (remaining balance is written off and the amounts paid by the client will be returned to the beneficiaries). Death of spouse: 25 percent of the original loan amount Death of children: 15 percent of the original loan amount
Limitations	For new clients or those that neither have nor renewed their loans for 6 months or longer, only accidental deaths are covered during the 1 st 3 months of the loan. This is to reduce the risk of adverse selection.
Key Exclusions	Provoked murder, suicide, participation on a criminal activity, war, natural calamities and epidemics.
Pricing/Premium	Single premium rate equivalent to 6 percent of the initial loan amount per annum (half of this is client savings).
Savings	Savings will be returned with accrued interest if the client dies, or after five years if the client survives.

Adapted from "Microinsurance in Cambodia" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 50.

Membership in MEADA is at first voluntary for CHC Ltd. clients, while “during the roll-out and full implementation, it shall be compulsory for those who want to avail of the MFIs credit facilities.” MEADA is designed such that it offers “credit life insurance with funeral benefits” to CHC Ltd. clients. It incurs a single premium at 6 percent of the preliminary loan amount, yearly. “Half of this (3 percent) is client savings, which will be returned” with accumulated interest lest the client dies, or five years following, in case the client survives. Joining is permissible for clients aged 18-55 years old, with their spouses (aged 16-25) and children (aged 5-20) as beneficiaries.⁵⁶

MEADA in implementation stream

CHC Ltd. implements MEADA alongside its credit products. Initial steps have been taken with “operational systems in place, implementing rules and regulations (IRR) had been issued and staff trainings conducted.” Meanwhile, manual recording schemes are employed alongside CHC Ltd.’s present financial management systems, until more appropriate financial systems and Management Information System (MIS).⁵⁷

While CHC Ltd. as subcontractor takes charge of the marketing, client relations, and program administration, CHC NGO shoulders the financial risk. RIMANSI nonetheless, provides “technical assistance and business advisory to both the NGO and the MFI concerning MEADA.”⁵⁸

The CHC Ltd. Executive Director, supported by a Program Coordinator, manages the program. With the Executive Director, the synergy between MEADA and CHC Ltd. operations is being ensured, while “over-all planning and coordination of microinsurance activities are being handled by the Program Coordinator.” Full-time staffing complement is not expected during the initial phase of MEADA’s operations. The CHC Ltd. staffs do the “marketing, distribution, collection, claims processing and data management” during the first phase of MEADA. In turn, 1.5 percent of the net premiums are entitled to the MFI as administrative and collection fees. A net premium of 0.3 percent serves as staff incentive and directly given to “Credit Agents, Credit Assistants, Sub-Branch Managers and Branch Managers.”⁵⁹

Contingent on the business model – to be adapted in consonance with the envisioned microinsurance framework – is the recruitment of full-time staff “depending on the client growth and financial viability”.⁶⁰

The table below summarizes the major elements in MEADA’s implementing systems which are all part of MEADA’s Business Plan “developed based on the market research, actuarial analysis and financial projections for the program” as related by Alip and David-Casis:⁶¹

Table 4. Implementing Systems of MEADA Program

Element	Implementing Schemes
Marketing and Promotion	Marketed together with CHC Ltd.’s loan and savings products, primarily through the Credit Agents; provides pre-enrolment orientation and education on microinsurance.
Risk Management and Controls	Only CHC Ltd. clients can participate in the MEADA Program; the MFI’s selection criteria indirectly serve as a form of underwriting.
Premium Collection	Single premium; collected upon loan disbursement
Claims Procedure	Death of a borrower’s legal dependents is informed through branch offices; forms shall then be filled out/necessary information must be given within 6 months after death; benefits are paid upon presentation of death certificate and sworn statement of the beneficiaries establishing their lawful status.
Financial Recording and Management	RIMANSI helps CHC Ltd. in setting up a separate accounting system for MEADA.
Management Information System	RIMANSI assists MEADA in the installation, use and maintenance of basic MIS software for data management and tracking.

Source: “Microinsurance in Cambodia” by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 52.

In a series of FGDs facilitated by Alip and David-Casis to measure MEADA clients’ awareness and satisfaction level regarding the program, it was observed that there was a high level of awareness and relatively high level of understanding from the clients. MEADA being able to “give credit or loan protection in case of death within the family and the 50 percent of the premium paid to be returned in five years were among the most liked and most understood component of the program. Still, some of the participants disclosed that they “do not understand how the program works.”⁶²

While all the participants rated a “very good” experience with MEADA, the participation rate is recorded to be low. This was attributed to the fact that “enrolment in MEADA is presently non-compulsory for CHC Ltd. clients”. Generally, it manifests a “low level of awareness and understanding of microinsurance among clients,” emphasizing the necessity for CHC Ltd. to Information, Education and Communication (IEC) activities for its staff, more so, for its clients.⁶³

In the lenses of Vision Fund Cambodia (VFC)

Vision Fund Cambodia (VFC), like CHC Ltd., is originally a small credit program of the World Vision Cambodia (WVC) – a member of World Vision International – until it was transformed into an independent institution in 2003. With the objective to offer “affordable insurance services to low-income clients” as protection from specific financial risks in the event of death, the WVC established the Vision Insurance Program subcontracting VFC for implementation.⁶⁴

Table 5 presents the product summary of Vision Insurance:

Table 5. Product Summary, Vision Insurance

	Product Features and Policies
Microinsurance Type	Microlife Insurance
Group or Individual Product	Group product
Term	Coverage is co-terminus with each loan. It begins on the effective date of the loan and ends when the loan is repaid in full, for as long as the monthly premium rate are paid.
Eligibility Requirements	<i>Clients:</i> must be aged 18-66 (existing VFC age limits) <i>Spouse:</i> must be aged 18-66, legally married and living with the client <i>Children:</i> only the two eldest children, aged 2-20 and living with the client (single or widowed parents may cover their children)
Voluntary or Compulsory	Compulsory participation for clients aged 18-66
Coverage/Benefits	Community Bank Loan <i>Creditor Life Benefit:</i> 100 percent of ending balance of portfolio <i>Client Funeral Benefit:</i> KR 120,000 (US\$ 30) <i>Spouse Funeral Benefit:</i> KR 72,000 (US\$ 18) <i>Children Funeral Benefit:</i> KR 48,000 (US\$ 12) Solidarity Group Loan <i>Creditor Life Benefit:</i> 100 percent of ending balance of portfolio <i>Client Funeral Benefit:</i> KR 180,000 (US\$ 45) <i>Spouse Funeral Benefit:</i> KR 120,000 (US\$ 30) <i>Children Funeral Benefit:</i> KR 96,000 (US\$ 24) Individual Loan <i>Creditor Life Benefit:</i> 60 percent of ending balance of portfolio <i>Client Funeral Benefit:</i> KR 300,000 (US\$ 75) <i>Spouse Funeral Benefit:</i> KR 192,000 (US\$ 48) <i>Children Funeral Benefit:</i> KR 144,000 (US\$ 36)
Limitations	For new clients, only accidental deaths of the client and family are covered during the 1 st 3 months of the loan. Coverage continues for 30 days beyond the date that a delinquent premium payment is due.
Key Exclusions	Murder, suicide, participation on a criminal activity, acts of war or terrorism, natural calamities, pandemics, and epidemics.
Monthly Premium	Community Bank Loan: 0.2125 percent of the current outstanding loan balance Solidarity Group Loan: 0.153 percent of the current outstanding loan balance Individual Loan: 0.085 percent of the current outstanding loan balance.

Adapted from “Microinsurance in Cambodia” by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, p. 60.

VFC relates that a periodic review of the “environment, risk assumptions, policies and procedures will be done” to guarantee that the products will remain actuarially reliable.⁶⁵

In Cambodia, the increasing vivacity of microfinance and the significant outreach by institutions have motivated the links between microfinance and microinsurance. Some licensed MFIs, particularly CHC Ltd. and VFC are positive about the potential of their current microinsurance programs for three major reasons: 1) the clear demand for insurance; 2) RIMANSI’s technical guidance and sharing of expertise in the pilot testing of MEADA and Vision Insurance; 3) RIMANSI and its partner organizations in Cambodia are engaged in policy advocacy and development, enabling them to anticipate and take preparatory steps to comply with the emerging framework for microinsurance.⁶⁶

As listed in Alip’s and David-Casis’ research on Cambodia’s microinsurance schemes, the following are the key driving factors for MEADA and Vision Insurance:⁶⁷

- 1) Encouraging trends from microinsurance experiments by MFIs worldwide;
- 2) Clients’ interest and willingness to participate in the microinsurance programs;
- 3) Willingness of NGOs/MFIs to diversify and pilot financial innovations;
- 4) Government tacit approval and the opportunities presented by the emerging legal framework for microinsurance; and
- 5) Strategic partnership with a microinsurance advocate and practitioner.

3. Microinsurance in Vietnam: Transformation and Progress

*If microcredit provides the poor their present financial needs,
microinsurance will provide their unexpected
and future financial requirements.*

GIL S. BELTRAN

*Undersecretary and concurrently Executive Director
National Credit Council, Department of Finance, Philippines*

The Socialist Republic of Vietnam, the easternmost country on the Indochina Peninsula in Southeast Asia, has more than 84 million people making it the 13th most densely inhabited nations in the world. Out of these millions, roughly 24.10 percent of its population or 4.6 million households live below poverty line.⁶⁸

Similar to Cambodia, Vietnam has suffered long years of conflict leaving its economy unstable and social confidence scorned. In 1986, the Vietnam Government has concluded a broad economic reform called “doi moi” (Renovation).⁶⁹ It has introduced major reforms with the elements of market economy. Since the implementation of this “market-based economic reforms”, Vietnam has recorded a significant growth in its economy.⁷⁰ Vietnam becomes the “world’s second-fastest growing economy” having achieved about 8 percent GDP growth from 1990 to 1997 per annum and from 2000 to 2005 continued at about 7 percent. A threefold boost on foreign investments and quintupled domestic savings were also noted.⁷¹

Vietnam’s substantial progress in poverty reduction has in fact been instrumental to its achievement of the “first Millennium Development Goal (MDG) of halving extreme poverty by 2015, way ahead of the global schedule.” From 70 percent in the middle of 1980s, poverty status dropped to 24.1 percent in 2004 and was further trimmed down to 22 percent in 2005 per accounts of the Ministry of Labor, Invalids and Social Affairs (MOLISA).⁷²

Indeed, Vietnam’s economic performance is noteworthy; however it is yet left with the challenge of the non-poor population living close to the poverty line. Likewise, the economic progress has not eased the poor’s vulnerability to external stress events or bolstered their capacity to cope with various kinds of risks. Some of the most prevalent perils that the poor face are “episodes of ill-health, crop failure, livestock death, adverse movements in commodity prices, unstable employment opportunities, and the occurrence of natural disasters.” Nhu-An Tran and Tan See Yun (2004) related that an approximation of 5-10 percent of Vietnam’s population is “vulnerable to fall back into poverty.”⁷³

Further, Vietnam’s economic achievements entail more reason for the country to take heed of two significant and linked challenges: “promoting those living below the poverty line into the non-poor category and protecting the people suffering declines in well-being, which could bring them back into the poor category.” This means that being in a “good” economic position does not excuse anyone from risks and unexpected shocks.⁷⁴

A study by Alip and David-Casis has listed and summarized the most common risks faced by Households in Vietnam, as shown below:

Table 6. Summary of the Most Common Risks Faced by Households in Vietnam

Type of Crisis	Forms and Causes	Effect
Human Crisis	Illness or Accident	High indirect and direct treatment costs; Loss of income through reduced labor
	Death of Laborer	High costs of funeral expenses; Loss of income through reduced labor
	Alcoholism, Drug Addiction, Gambling	High non-productive expenditure; Loss of income from loss of labor
Material Crisis	Theft	Loss of assets; Reduced income
	Damage to Housing (flood, typhoon, fire)	High unexpected expenditure
Non-Crop Economic Shock	Failure of Investment	Reduced income; Inability to repay debts
	Unemployment	Reduced income
	Life Cycle Events (wedding, funeral)	Increased expenditure; Reduced labor supply
	Death of Animals (individual or epidemic)	Reduced income; Reduced assets and security
Crop Failure	Rats, Mice or Other Pests	Reduced income
	Landslides	Reduced income
	Weather (floods, drought, typhoon, etc.)	Reduced income

Adapted from “Microinsurance in Vietnam” by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 24-25.

The tandem also cited a study by Quynh Ngoc Nguyen (2006) identifying the most susceptible households in Vietnam as follows:

Table 7. Most Vulnerable Households vs. Less Vulnerable Households in Vietnam

Less vulnerable	More vulnerable
Male-headed households	Female-headed households
Ethnic-majority	Ethnic-minority
Households owning agricultural lands	Households not owning any land
Households in other wealth deciles	Poor-income decile households
Other households living outside Red River Delta regions	Households in Red River Delta regions (due to frequent floods and high population density)

Source: “Microinsurance in Vietnam” by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, p. 25.

In the above-mentioned study, Vietnamese’s risk coping strategies were also disclosed. These are primarily self-insurance strategies like “selling of assets and borrowing from relatives and friends.” Self-insurance strategies are regarded to be less efficient “against income shocks” since poor families have limited assets and they are likely to fall deeper into “poverty traps”. While self-insurance mechanisms protect the

families for the meantime, they may become more vulnerable in the future, even the richer ones. It is therefore recommended that families have other options to insure against perils.⁷⁵

Credit is identified to be the second coping strategy, suggesting a “good” performance standing of the credit market, albeit there are access difficulties for the low-income families “who have little or no collateral to secure credit”.⁷⁶

Churchill on the other hand, furthers that loans are frequently used for health care, while sales of pigs and other important possessions are mostly “used to pay expenses such as school fees.” Cash savings can be important, but they are limited. Cash kept at home is risky because of the continual pressure on its use. Next observed resort is saving in a group for instance, rotating savings and credit association (ROSCA); however this is regarded mainly as a preventive strategy.⁷⁷

Recent reports showed that “middle- and upper-income households in Vietnam are increasingly taking advantage of insurance products to help manage risks,” however, low-income families have “limited access to insurance products that effectively meet their needs.” While the mainstream insurance sector in Vietnam has mainly targeted “upper income segments and salaried employees or formal sector workers,” the Government has pronounced its strategy of advancing “universal access to insurance.”⁷⁸

Blossoming Microinsurance Industry in Vietnam

Alip and David-Casis reported that microinsurance – offering insurance protection to low-income groups and informal sector workers – is fairly ‘new and limited’ in Vietnam. What’s interesting is the recent upsurge of attention in serving the low-income groups from the following:⁷⁹

- **The Government** – it was a declared policy to facilitate universal access to health insurance and integrated social security system. Its primary objective is to establish financial management systems that would induce diversification and improvement of traditional products by the insurers, “*expanding the scope and geographical area so as to cover low income earners and people in remote or distant areas*” as stated in the Strategy for Development of the Vietnamese Insurance Market from Year 2003 to Year 2010.
- **The commercial sector** – mainstream insurance companies have increasing interest in channeling insurance products to low-income market. However, varied opinions on “who should provide them with insurance and whether low income households would be able and willing to purchase commercial insurance” are noted. Among the commercial insurers who have been vocal in their interest in the low-income market were Bao Viet, Bao Minh, Prevoir and AAA. They have even established partnerships with different organizations in channeling their products to the poor.
- **Microfinance and mass organizations** – they bestride the border between commercial insurance provision and social welfare. They are progressively becoming pro-active mediating their members’ access to insurance products, may it be through a “mutual assistance fund or an agency relationship with a commercial insurer.” Majority of MFIs and mass organizations delivering insurance product are following the self-insurance model, which is commonly known as mutual assistance funds (MAFs). “These schemes are unlicensed, unregulated and offer insurance services to members/clients only.” Insurance products are provided in a manner that is easy and affordable, however, such scheme could prove precarious since risk pool is small, access to reinsurance is limited, and expertise in suitable product pricing is weak. MAFs are allowed to informally operate given that they are non-profit, do not issue insurance policies and not called mutual insurance companies. Given this lenient approach, it is easier for low-income families to acquire short-term insurance; however this does not ensure them of a “long-term, more reliable and more diversified insurance services for low-earning communities.”

The table below presents the classification of insurance products that are presently available for Vietnam's low-income population based on a study conducted by the International Labor Organization (ILO) Office in Hanoi:

Table 8. Insurance Products Available for the Low-income Groups in Vietnam

Classification	Inclusions
Long-term life insurance products	Life/savings products, cash-value policies, annuities and term-life products with more than one-year coverage
Shorter-term death benefit insurance products	Personal accident insurance products which cannot be offered by a life insurance company in Vietnam
Health insurance products	Supports preventive health and treatment of illnesses not requiring hospitalization or surgery
Other insurance products	Agricultural insurance, and new products being pilot-tested for rural households

Source: "Microinsurance in Vietnam" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, p. 28.

During the last three years, however, little has been changed in the insurance product provision for the low-income market in general. The Ministry of Finance (MOF) has recorded no registration of a poor-oriented product from any commercial insurer. This poses much work yet to be undertaken to "adopt existing products and to develop new ones to meet the particular needs and preferences of low-income households on a massive scale."⁸⁰

Issues and concerns affecting the progress of microinsurance in Vietnam

The policy and regulatory environment

The Law on Insurance Business and the Strategy for Development of the Vietnamese Insurance Market 2003-2010 are two guiding structures of the insurance development in Vietnam. Alip and David-Casis in their study have quoted the Strategy's primary objectives as follows:⁸¹

"To develop the insurance market in a comprehensive, safe and healthy manner, aiming to satisfy the fundamental insurance demands of the economy and the population; to ensure that organizations and individuals benefit from insurance products of international standards; to attract domestic and foreign resources for socio-economic development investment; to raise the financial and business capabilities of insurance business enterprises, meeting the competition and international integration requirements.

"The State manages and supervises insurance business activities according to Vietnamese laws and international principles and standards."

With the strategy for insurance industry development, it is hoped that a "more professional, more stable, higher quality supply of insurance services" can be delivered in Vietnam.⁸²

Vietnam's laws on insurance are non-restrictive of microinsurance or any informal insurance schemes which are facilitated by mass organizations or by international and local NGOs. Whereas these units are "not operating illegally", the laws do not include official legal status implying that clients have no legal option lest the schemes face fiscal dilemma. Yet in 2005, the Government of Vietnam issued two significant regulations allowing the formal operations of the abovementioned types of insurers. They are presented as follows:⁸³

1. *Decree 28/2005/ND-CP, Regulating the Organization and Operation of Small-Sized Financial Institutions*, which was the first step on the creation of a legal and regulatory framework for MFIs. The Decree authorizes regulated MFIs to work as agents in banking and insurance related fields, thereby providing a legal framework that facilitates partnerships between MFIs and insurers to serve low-income clients.
2. *Decree 18/2005/ND-CP, Regulating the Establishment, Organization and Operation of Mutual Insurance Organizations Operating in the Insurance Business Domain*, which creates opportunities for innovation to meet the insurance needs of low-income households that work in the agriculture, fishery and forestry sectors. The implementing guidelines, Circular 52/2005/TT-BTC, had been issued in June 2005, but to date, no mutual insurance institution had been established.

As indicated, Decree 28 permits MFIs to function as agents or distributors of registered insurance companies whereas Decree 18 provides a legal mandate for MAFs to shift into regulated Mutual Assistance Insurance (MAI) organizations. MAI is created as a legal entity to facilitate insurance business intended for “self-support and self-help among members of Vietnamese organizations, individuals working in the same field, having the same occupation or living in the same geographic area and vulnerable to the same risk.” Members of MAI are policy holders, at the same time owners of the organization. They are likewise entitled to contribute in its management.⁸⁴

Below are the list of the prudential requirements for MAIs as reported by Alip and David-Casis:⁸⁵

- It can offer insurance products and services only on the following areas: health and accident, property and damages, transported goods, vehicles, fire and explosion, ships/boat and civil liability of owners, general liability, credit, business losses and agriculture.
- It must be composed of at least ten (10) members and organized into: a Members’ Congress, a Board of Directors, Director and a Supervisory Board.
- To be licensed, a MAI must have a legal capital of no less than VND 10B (US\$ 625,000). MAIs working in the agricultural sector have a lower initial capital requirement of VND 9B (US\$ 562,500).
- A MAI must have a compulsory reserve or 5 percent of after-tax returns every year. The minimum amount of reserve fund is 10 percent of the initial capital.
- It must operate in accordance with Vietnam laws and the law on insurance business.

MAIs also submit to the “monitoring, supervisory and reportorial requirements of the MOF.” Likewise, prior registration of insurance products is mandatory.⁸⁶

Certainly, the issuance of Decree 28 and Decree 18 is a big step towards systematic and regulated operations of MFIs and MAIs in Vietnam. Today, most microfinance and microinsurance activities are carried out as “projects or special programs of mass organizations”, and having the legal framework in place allows both MFIs and MAIs an opportunity to establish performance standards that are competitively complementing the entire industry. While access to commercial loaning and donor funds were channeled to the MFIs, generation of capital contributions from members and reinsurance are allowed for MAIs. With credit, savings and mutual assistance programs being able to mark off into legally mandated institutions increase in outreach, which will eventually augment benefits for their marginalized clients, is expected.⁸⁷

Then again, some issues and concerns need to be tackled to facilitate growth and expansion. Below are some of the matters being dealt with the microinsurance sector in Vietnam per results of the study conducted by Alip and David-Casis in 2008:⁸⁸

- **Restrictive Microinsurance Policy** – with Decree 28 limiting MFIs as mere microinsurance agents or distributors poses a problem given that most mainstream insurers lack faith on the low-earning households being a potential market. Furthermore, their insurance products, not to mention their collection mechanisms, are designed in contrast to the needs and capacities of the low-income groups.

Moreover, Decree 18 on “*regulating the establishment, organization and operation of Mutual Insurance Organizations operating in the Insurance Business Domain*” as well as Circular 52 were issued back in 2005, but even three years after, there were no records of any informal microinsurer in Vietnam attempting to register its operations. Even the re-evaluation option for the current regulations with the involvement of key players (i.e., practitioners and stakeholders) would entail a long process en route to regulating and sustaining these microinsurance efforts at hand.

It was also seen that Decree 18 and Circular 52 limit their focus on fishery, forestry and agriculture sectors only. Similarly, the scope of MAIs operations is restricted to selected insurance products and services. MAIs are also subjected to pertinent regulations of the insurance business law which are being applied to commercial insurance, e.g., “high capital and liquidity requirements, liquidity and solvency ratios, restrictive requirements for agents, and sole business line requirements”. These are deemed to be inappropriate for microinsurance.

- **Insufficient Operative Guidelines and Lack of Parameters for Product Development** – parameters for the insurance products that are appropriately designed for the needs of the marginalized population is non-existent. Guidelines for the “setting up, operation, monitoring and evaluation of MAIs” are also insufficient. Unless apt performance standards are provided, many good-willed organizations could engage into microinsurance ill-equipped with technical know-how and assistance ending in a fiasco. Hence, the MOF issuing more comprehensive guidelines to potential MAIs and other interested groups is rather imperative.
- **Capacity-building needs of microinsurance providers** – transformation from informal MAFs to regulated MAIs entails critical challenges relative to human resource and systems development which need to be carefully addressed. Key managerial and technical positions in MAIs will require highly qualified staff and this will incur time and effort.

To illustrate and as indicated by Alip and David-Casis, the Chairpersons of the Board of Directors and the Directors of MAIs are expected to have “professional qualifications and experience in the insurance business.” MAIs likewise need to upgrade their staff’s knowledge and skills to pair up with competition and improve management structures to meet the terms of the new regulations. Specifically, the MAIs will need support in management systems development with regard to the following: “standardizing operational policies and procedures; MIS; accounting systems; and developing new skills such as actuarial projections, liquidity management and investment management.”

- **Need to Strengthen Regulatory and Supervisory Capacity** – MOF being the regulatory entity for MAIs – granting mutual assistance business licenses to operate and approving microinsurance products as stipulated in Decree 18 – needs to upgrade regulatory and supervisory capacity in this respect.

It is expected that the Government should be the driving force in creating a conducive regulatory environment and in advancing formal sector outreach into the low-income population. To attain this, the MOF ought to understand microinsurance concept – particularly

its difference from mainstream insurance – in a deeper stance. It should also examine the feasible models and assess legal frameworks which in other countries become the enabling element for microinsurance. Lastly, MOF should embrace policies and execute regulations highly considerable to Vietnam's perspective to ascertain progress of MAIs and other microinsurance advocates.

The TYM Mutual Assistance Fund

Similar to Cambodia, Vietnam has recognized the potent participation of MFIs in promoting microinsurance, particularly to their members. This is true with TYM, which denotes *Tao Yeu May* and is literally translated as “I love you”. It is the international name for Quy Tinh Thuong or the Affection Fund of the Vietnam Women's Union (VWU), which started in 1992 as a mass-based organization promoting the welfare of Vietnamese women.⁸⁹

TYM fund is a modification of the Grameen Bank and CARD microfinance project tailored to specifically match the context of Vietnam. TYM's mission is to “improve the quality of life and status of poor women and their families by giving them access to credit and savings services”.⁹⁰

The year 1989 marked the beginnings of TYM when VWU points its lenses to the Grameen approach to poverty-oriented lending and “sent a delegation to Bangladesh” for an exposure to Grameen operations. Came 1991, “VWU was able to access grant from the Asian Community Trust (ACT) of Japan” to pilot a Grameen-style microcredit project in 1992. With a US\$ 55, 000 endowment from Grameen Trust and the Asian and the Pacific Development Center, TYM was officially introduced in 1993. Consequently, financial support to TYM streamed from other development organizations, among which the Center for Agriculture and Rural Development (CARD) of the Philippines is included.⁹¹

TYM's credit products including various types of loans followed the Grameen Bank's and CARD's credit approaches with some modification to the context of Vietnam. Its savings products, on the other hand, consist of compulsory savings and voluntary savings. Originally, clients are entitled to just a single type of loan at VND 200,000 which had to be settled in 50 weeks. Now, clients can select from a variety of loan products which include general, multi-purpose, medium-term and special loans. The terms and conditions of loans are matched with the “needs and capacity of borrowers”. Each cycle, a client is entitled to a loan size increase ranging from VND 500,000 (US\$ 31.25) to VND 20 million (US\$ 1,250) payable in a flexible loan terms from 10 to 100 weeks at 0.8 percent to 1 percent monthly interest rates. Similar to CARD MRI in the Philippines, loan and interest payments are collected “in weekly installments during center meetings”. This reduces the repayment burdens and is much appropriate for the TYM members' needs.⁹²

Whereas VWU has its successful microfinance operations in partnership with several international NGOs, TYM Fund paved its way to success such that in 1998, it graduated from a project to a separate department inside VWU. It has evolved as a premier MFI in Vietnam over the last 15 years. TYM Fund is financially sustainable, following internationally competent accounting and reporting criteria. Presently, it spans across nine provinces, 18 districts and 126 communes serviced by its 26 branches. It has 184 full-time staff catering to over 30,000 members.⁹³

To further strengthen its operations and reach wider clients – transforming to a formal MFI approved by the State Bank of Vietnam – TYM Fund undertakes the process of registering under Decree 28/2005 with the technical assistance from the Philippine-based CARD MRI. Another entity providing technical assistance to TYM is the *Sparkassentiftung fuer Internationale Kooperation* or otherwise known as the Savings Bank Foundation for International Cooperation (SBFIC) of Germany. Through its “*Support to Institutional Development of TYM Fund Project*,” which began in 2005, the SBFIC has “engaged a full-time international Management Consultant as TYM advisor” helping in the “improvement of its microfinance operations”.⁹⁴

TYM Fund as microinsurance provider

To address clients need for financial support in times of crisis, TYM Fund launched the Mutual Assistance Fund in 1996. Specifically, the objectives of MAF are indicated as follows:⁹⁵

- The Mutual Assistance Fund is presented as a solidarity mechanism between the members of TYM.
- The MAF partly supports the expenses of the member's household when it faces critical times.
- The MAF increases the strength of TYM Fund, has a positive impact on the community, particularly by attracting more members to join the Fund.

As related in the study of Alip and David-Casis, MAF is parallel to TYM's primary goal of boosting loyalty of members; therefore "not intended as an insurance plan that meet the members' protection needs, but as a support mechanism to the members in critical times." Table 9 summarizes the products offered by MAF.⁹⁶

Table 9. MAF Product Summary

	Product Features and Policies
Microinsurance Type	Mutual assistance fund
Group or Individual Product	Group product
Term	Co-terminus with membership in TYM Fund
Eligibility and Requirements	Must be a member of TYM. Previous members need to renew their membership by availing of TYM's loan or savings services to be eligible to join the MAF.
Voluntary or Compulsory	Compulsory for TYM members
Coverage/Benefits	<ul style="list-style-type: none">• Death of Client: VND 500,000 (US\$ 31.25)• Death of Spouse: VND 200,000 (US\$ 12.50)• Death of Children below 18 years of age: VND 200,000 (US\$ 12.50)• Serious surgery or illness of client: VND 200,000 (US\$ 12.50); payable only once• Outstanding loan written off upon death of client
Limitations	Claims may only be submitted after 4 weeks from starting date of membership (to minimize anti-selection).
Exclusion	Suicide
Pricing/Premium Contributions	VND 200 (US\$ 0.01) per week

Adapted from "Microinsurance in Vietnam" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, p. 53.

MAF is offered and can be participated by TYM Fund members only, thus, "TYM's selection standards indirectly serves as a "form of underwriting for the MAF." Compulsory coverage is also being implemented, which in turn controls adverse selection. Moreover, there is a four-week waiting period prior to TYM members' submission of claim to the MAF which also reduces anti-selection. Underwriting however, is not in place for member's spouse and children who are also covered under the MAF. When members exceed the age limit, they are not required to leave the program and follow-up to assess the health condition of client at each loan cycle is not undertaken. Increase in health cost is of no question since the benefits are naturally fixed.⁹⁷

TYM members have fervently responded to MAF that by the end of June it has assisted 31,379 members, excluding the number of spouses and children covered. An upward enrolment for MAF membership

was recorded and is attributed to TYM's unceasing area expansion thereby contributing to increased outreach. This trend is "expected to be retained, as MAF is a financial product vastly welcomed by TYM members resulting from its affordable premium level and appealing benefit package."⁹⁸

TYM: From MAF to MAI

MAF was initially intended to assist TYM members in the event of unforeseen shocks alone. When CARD – a Philippine-based MFI instrumental to TYM's microfinance operations start up – had victoriously instituted a member-owned Mutual Benefit Association (MBA) offering microinsurance products to its members and clients generally, TYM geared to the product's replication in Vietnam. The organization plainly looked at CARD MBA's experiences, carefully altering some approaches in line with local context. Through this course, CARD assisted TYM Fund in its technical needs in 2006 and 2007.⁹⁹

Driven by three major objectives, TYM Fund decided to transform MAF into a "sustainable insurance provider for poor women and their families. These objectives were enumerated as follows:¹⁰⁰

1. to upgrade the MAF product in order to increase coverage and provide more benefits to members;
2. to improve management and governance to ensure sustainability by increasing operational and financial efficiency; and
3. to build up a professional organizational structure and create a separate business unit that is recognized under Vietnamese law.

Prior to the complete transformation to a MAI, MAF has undergone several steps. First is the need to re-examine the conclusions and recommendations of the CGAP working group and ILO-sponsored studies on TYM-MAF. Microinsurance products also need to be redesigned anchored on "market research and actuarial analysis." Logically, the institutions need to improve its financial management and introduce investment policies and reinsurance. It also entails the development of a separate accounting system, as well as a computer-based MIS. It is also necessary to establish a professional organizational structure which includes "hiring and training of qualified managers and staff. Lastly is the formation of a "professional business unit within TYM and, with policy advocacy, prepare for its registration as a MAI organization."¹⁰¹

Another organization instrumental to the MAF Transformation Project is RIMANSI. In formalizing TYM's existing MAF RIMANSI provides technical assistance in terms of business planning, operations training and planning and monitoring. Before the transformation process, RIMANSI has conducted a research on the feasibility of setting up formal microinsurance programs "using baseline information gathered by CARD MRI Research Unit". Subsequently, the transformation of MAF into a formal mutual assistance insurance organization was pursued.¹⁰²

TYM's efforts in channeling microinsurance services to Vietnam's poor spans further through close a monitoring of the legal environment as well as "lobbying with the authorities and other stakeholders". The ultimate aim is to ensure "favorable terms for capitalizing and managing on a MAI organization in harmony with performance standards mutually set with the Government."¹⁰³

4. Microinsurance in the Philippines: A Leap to Progress

*“If the goal of microfinance is putting money in people’s pocket,
the goal of microinsurance is putting tranquility in people’s heart at time of crisis.”*

MR. ALEXANDER M. DIMACULANGAN
General Manager, CARD MBA

In the Philippines, where microinsurance is ‘widely supported’ and as defined in an Insurance Memorandum Circular released by their Insurance Commission, “microinsurance is referred to as 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.” Whereas “microinsurance product is an insurance policy whereby the monthly premium does not exceed 1,050 PhP (23.33 US\$) and the maximum amount of life insurance coverage is not more than 175,000 PhP (3,888.89 US\$).¹⁰⁴

In a Pre-Appraisal Mission Report (July 2007) made on behalf of the German Agency for Technical Cooperation (GTZ), it was noted that the “existing social insurance schemes failed to cover the informal sector”. The study illustrated the landscape of the Philippines’ social insurance provision as nearly exclusive to the members of the formal sector and typically regular employees. As recorded, the Philippine Health Insurance Corporation (Philhealth), and the Government Service Insurance System (GSIS) are primarily accessed by government employees while the Social Security System (SSS) mainly caters to private sector employees.¹⁰⁵

Today, this landscape is being moderated with several institutions venturing into microinsurance. One such advocate is the CARD MBA, with its experiences inspiring others to put up their own microinsurance infrastructure and its continued partnership with RIMANSI – a premiere microinsurance resource center – leading to more microinsurance ventures in the country and abroad.

Breakthroughs of microinsurance industry in the Philippines

Microinsurance in the Philippines is in general defined as “insurance for self- and unemployed persons who conventionally do not have access to formal sector insurance or long term savings.” In contrary, commercial insurance company commonly does not cater to low-income groups due to a perceived limited purchasing power and a traditional perception of them being a high-risk market segment.¹⁰⁶

In the Philippines today, microinsurance finds a conducive environment for further proliferation with its Government, supporting the institution of microinsurance policies and frameworks to its national strategy. One such manifestation is the formation of the public-private sector working group which has approved a draft strategic framework labeled, the “National Strategy for Microinsurance”. It aims at encouraging ventures in microinsurance products set to provide a safety net to the country’s poorest sectors. In its draft are statements of three key steps which identified stakeholders shall undertake in providing insurance products to the low-income segment. These include 1) provide an appropriate policy and regulatory framework; 2) monitor informal insurance schemes; and 3) institutionalize financial literacy. The National Strategy and Regulatory Framework for Microinsurance are projected to be launched on January 29, 2010. This outlines the Government’s policy impetus in providing access to insurance to the low-income population.¹⁰⁷

The article on National Strategy lays the objectives, the responsibilities of various stakeholders as well as the core strategies to be implemented in furthering the poor's access to insurance or microinsurance per se.¹⁰⁸

Parallel with strengthening the legal framework of microinsurance in the country is the Government's promotion of public awareness on the importance of risk protection most suitable for the low-income groups – through microinsurance in such case. It will also stage health insurance for the poor in the social protection perspective. The private sector also participates through rendering simple and low-cost insurance products for the poor and informal sectors in the Philippines.¹⁰⁹

As support vehicle, the Regulatory Framework determines the policy and regulatory environment that will 'encourage, enhance and facilitate the safe and sound provision of microinsurance products and services by the private sector'. Protecting the rights and privileges of those who are insured is a defined system, thereby encouraging trust and confidence in the insurance industry likewise in providers of insurance-like and similar products and services.¹¹⁰

Approving the National Strategy and Regulatory Framework are the members of a steering committee composed of representatives from the Finance Department, the Insurance Commission, Bangko Sentral ng Pilipinas, the Securities and Exchange Commission, the Cooperative Development Authority, the National Anti-Poverty Commission and the Philippine Health Insurance Corporation (PhilHealth).¹¹¹

Microinsurance Regulation in the Philippines

In 2006, the Philippine Insurance Commission launched its initiative in promoting microinsurance by officially declaring the month of January of every year as "Microinsurance Month". To kick off the initiative, the Commission issued a ground-breaking circular defining what microinsurance is and its minimum features.

In particular, Memorandum Circular No. 9-2006 characterizes microinsurance as follows:

- (a) Microinsurance is "an insurance business activity of providing specific insurance products that meet the needs of the disadvantage for risk protection and relief against distress or misfortune;"
- (b) The minimum features of a microinsurance policy are:
 - The amount of premium computed on a daily basis does not exceed 10 percent of the current daily minimum wage rate for non-agricultural workers in Metro Manila (PhP 35 or US\$ 0.85 daily premium payments); and
 - The maximum amount of life insurance coverage is not more than 500 times the daily minimum wage and rate for non-agricultural workers in Metro Manila (PhP 165,000 or US\$ 4,024 insurance coverage).
- (c) The terms and conditions of microinsurance policies shall have the following features:
 - The contract provisions can be easily understood by the insured;
 - The documentation requirements are simple; and
 - The manner and frequency of premium collection coincides with the cash-flow of, or otherwise not onerous for, the insured.

The move of the Insurance Commission to promote microinsurance through the issuance of the circular is a welcome development. It defines what microinsurance is insofar as the application of the general provisions of the Insurance Code is concerned and delineates those products from the traditional commercial insurance products. Clearly, it sets the parameters on how to design insurance products suited for the poor and disadvantaged sectors by focusing on affordability, accessibility and simplicity.

Adapted from "Microinsurance in Cambodia" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 35.

The RIMANSI Organization for Asia and the Pacific pioneering microinsurance

In retrospect, current microfinance developments in the Philippines are credited to the initiatives of the RIMANSI Organization for Asia and the Pacific, Inc. When it was established in 2005, microinsurance was nameless in the Philippines, the term ‘microinsurance’ is not even a part of the “legal jargon for the insurance industry.” RIMANSI’s advocacy for microinsurance is extraordinary in that just a span of four (4) years since it kicked-off its operations, “it was able to lobby for the inclusion of microinsurance in official government policy.”¹¹²

RIMANSI Organization for Asia and the Pacific, a non-stock, non-profit organization, driven by its mission of supporting MFIs in their initiatives to channel microinsurance products to socio-economically challenged households in the Philippines and in Southeast Asia as a whole. In its beginnings are eight (8) MFIs responding to the emerging potential of microinsurance being channeled to millions of marginalized constituents in a “very competitive and sustainable manner that takes advantage of the financial and social networks linking microfinance institutions to their clients.”¹¹³

The initiatives of setting up a resource center to help MFIs in developing and managing their own mutual benefit associations (MBAs) were pursued by the Center for Agriculture and Rural Development, Inc. (CARD NGO), CARD Mutual Benefit Association (CARD MBA) and the Canadian Cooperative Association (CCA). RIMANSI’s founding President and CARD MRI’s Founder and Managing Director Dr. Jaime Aristotle B. Alip related that the organization was the up-shoot of a series of workshops and consultations among microfinance practitioners since 2003.¹¹⁴

A forum tagged as “*National Microinsurance Summit*” – the Philippines’ first microinsurance forum held at the CARD Training Center in Bay, Laguna – finally gelled the creation of microinsurance resource center. The eight MFIs pioneering RIMANSI include Alalay sa Kaunlaran, Inc. (ASKI), Center for Agriculture and Rural Development Bank (CARD Bank), CARD MBA, CARD NGO, Kasanyangan Foundation, Inc. (KFI), People’s Alternative Livelihood Foundation of Sorsogon, Inc. (PALFSI), Rural Bank of Talisayan, Inc. (RBT), and USWAG Development Foundation, Inc. Subsequently joining the RIMANSI are two MFIs namely, Agricultural and Rural Development for Catanduanes, Inc. (ARDCI) and Kasagana-Ka Development Center, Inc.¹¹⁵

Today, “RIMANSI is championing the cause of microinsurance, by operating a resource center that assists MFIs and other development organizations” set up their own “microinsurance programs or formalize their existing in-house mutual assistance programs.” It is also a member of the International Cooperative and Mutual Insurance Federation (ICMIF), an international association of cooperatives and mutual insurers advancing the progress of microinsurance industry as well as the establishment of a sustainable milieu for the growth of cooperative and mutual insurance globally.¹¹⁶

RIMANSI carries out a microinsurance model enhancing the operation efficiency of MFIs in channeling tailored microinsurance products to low-income households. Its business model mirrors the technology that CARD MBA has harnessed through a ‘painful learning process’. CARD MBA’s successful experience in “setting up a microinsurance program that provides microinsurance protection to its now 1.2 million members and more than 4.7 beneficiaries, (all members of low-income households and the informal sector)” and its continuous effort in product research and development is cited as best practice in the microinsurance business today. RIMANSI, being a pioneer in advancing microinsurance in the country and in Southeast Asia highly regard this path and wish to share this technology to other MFIs aspiring to take the same path. “RIMANSI hopes to serve as a development catalyst for the organization of mutual benefit associations or the registration of microinsurance organizations not just in the Philippines, but in Southeast Asia.” In a wider lens, RIMANSI pictures a “self-regulating industry, from the precedent provided by the microfinance sector”.¹¹⁷

As addressed by Dr. Alip in the Microinsurance Prospects for 2008 Forum held in January 2008, RIMANSI “is the only network, globally that promotes microinsurance that is owned and managed by poor clients” and articulated that they pushes “real empowerment” which he defined “control of resources by the poor”.¹¹⁸

In the Philippines, “RIMANSI has assisted seven (7) leading MFI partners in mobilizing, organizing and licensing microinsurance MBAs that would customize insurance products for their clients-members.” Outside the Philippines, RIMANSI is making waves in channeling microinsurance to more poor clients.¹¹⁹

In Cambodia, the CHC MFI and VFC received technical assistance in developing and piloting their own microinsurance schemes. RIMANSI was also instrumental in transforming the TYM’s or Affectionate Fund’s (Vietnam) “in-house mutual assistance fund into a government-licensed mutual assistance insurance organization”. It is also assisting Vietnam’s National Microfinance Network, called the M& Group – a group of seven (7) MFIs in flight to improve their current credit and savings programs for the poor by offering microinsurance. Similar engagements are being fulfilled with KBPR Arta Kencana in East Java, Indonesia.¹²⁰

Recognizing that a conducive policy environment is an imperative to advance microinsurance, “RIMANSI sponsored several policy dialogues, forums, workshops and conferences on microinsurance,” and took advantage of a “much-needed venue for networking and information sharing among stakeholders.” It has actively pursued engagement with “government policymakers and regulators” leading to “significant policy reforms” that are projected to stimulate further development in the microinsurance sector.¹²¹

CARD MBA advocating microinsurance in the Philippines¹²²

CARD MBA is a member of CARD Mutually-Reinforcing Institutions (CARD MRI) – a non-stock, non-profit organization advocating social change through microfinance.

In its passion to provide full range of financial services to marginalized communities, CARD has conducted a survey on the potential services that the clients wanted. This survey was done at the early stage of its operations in 1990s. Top on that list was access to life insurance. Members want to protect their families from repaying an outstanding loan if they died and to ensure that funds were available to cover the increasing burial costs.

Another demand was for a system that would allow members to participate in a long-term savings program until retirement as well as pension to cushion the loss of income when they are no longer working. This stimulated CARD Inc. to develop and introduce a new microfinance product in 1994 – the Members’ Mutual Fund (MMF). Its principal goal is to provide loan redemption in case of death of a member-borrower through a weekly contribution of P 2.00. Depending on the length of membership, they can also be given burial assistance.

In 1997, CARD increased the weekly contribution by P 2.50 to offer a monthly pension plan of PhP 300 – PhP 600 for members reaching the age of 65. After an assessment, CARD realized that a member would need to contribute for two years just to cover one month of pension benefit, and that the institution was at risk because CARD was responsible for the pension payment. Fulfilling its obligation to members would *decapitalize* CARD and may lead to potential bankruptcy. The experience proved to be a big learning experience for CARD. This was then when CARD decided to pay back the members’ contributions and finally turned-over ownership of the Members’ Mutual Fund to the members. MMF was then transformed into a Mutual Benefit Association; hence, the birth of CARD – Mutual Benefit Association (CARD-MBA).

Since CARD-MBA's establishment in 1999, it has continued to offer different microinsurance products and services. From simply offering loan insurance to members, CARD-MBA now offers life insurance program with accidental death, total and permanent disability, with motor vehicle accidental hospitalization benefits; retirement savings fund with special feature of contribution refund, all-loans insurance package with automatic loan offsetting after disability, mass wedding, disaster relief assistance program and credit bureau.

CARD MBA provides its products and services with the active complementation efforts both by the CARD Inc. and CARD Bank. A member of CARD Inc. and CARD Bank is automatically a member of CARD MBA. All members are required to a mandatory minimum weekly capital build-up/savings of PhP 40 per week plus MBA contributions amounting to PhP 20. This amount covers PhP 15 life insurance coverage and PhP 5 for retirement fund.

It is interesting to note that such amount covers not only the members but also her qualified dependents as well. Truly, such premium payment is very affordable for the low-income groups. CARD MBA takes pride in the speedy processing of claims (related to life insurance) which was made possible through 1-3-5 Procedure in Claims Settlement which is widely appreciated by members and non-members alike. 1-3-5 literally represents 1 day, 3 days and 5 days release of benefits depending upon the situation at hand. CARD always believes that members deserve the best quality service at all times. Listed below are the products and services offered by CARD MBA:

- **Life Insurance.** A CARD member is automatically covered by the life insurance program beginning her first payment of contribution. As proof of this coverage, an insurance policy is issued to the member. The members' legal dependents are also covered by the life insurance. A member's life insurance coverage begins from the payment of her first contribution and ends at the time she is resigned, terminated, retired, or was totally and permanently disabled, or has passed away.

To protect the MBA's funds from potential members who have ulterior motives on the life insurance program, i.e. become a member because she or a member of her family is seriously ill, and would like only to avail of the claims, a contestability clause was instituted to deter such claims.

For easy recall, CARD MBA lightly states the policy as:

“Bawal mamatay sa loob ng unang isang taon ng pagiging kasapi ng CARD MBA kung ang dahilan nito ay sakit na tinataglay bago pa sumapi sa samahan.” (*Death is 'not honored' within the first year of membership with CARD MBA if it is caused by an illness acquired before the membership*).

CARD MBA is guided by a Table of Life Insurance Benefits. A member's or his/her legal dependents' claim is based on the length of membership and cause of death.

- **Motor Vehicle Accidental Hospitalization (MVAH) Benefits.** MVAH covers the member and her legal spouse for motor vehicle accidents. The claimant must be hospitalized for at least 24 hours, and amount of benefit is PhP 10,000 or depending on the hospital billing. This is the amount that a member or her legal spouse can avail of for the entire period of her membership.
- **Refund of Life Contributions.** This type of benefit entitles a member who has been with CARD for at least 3 years a 50 percent refund of all contributions she made for life insurance. To illustrate, weekly contributions to life insurance is PhP 15/week. For easy computation, assuming there are 150 weeks in a year, a member who resigns after 3 years would be entitled to PhP 1,125.

- **Retirement Savings Fund.** As it is, this benefit is for the retirement of CARD members at age 70. A lump sum payment is given depending on the entry age to CARD.

All-Loans Insurance Package (ALIP). As the name implies, this is a loan insurance program. This product benefits both the microfinance institution (the lending institution) and the member and her family.

This product relieves the family of the member the obligation of paying back the balance of the loan in case of death of the borrower; also in case of total and permanent disability. For the lending institution, it eliminates the risk of non-payment in situations mentioned.

Loan insurance is a built-in mechanism for all loan products. Upon release of the loan, a borrowing member is required to pay 1.5 percent of the loan amount in order to be covered by loan insurance. Under this provision are two types of benefits and/or conditions:

- 1) The amount of indemnity is equal to loan amount. The program pays the lending institution the amount equal to the loan balance; and the family of the member is paid the amount equal to the amount she has already paid.

To illustrate, a member-borrower has a PhP 40,000 loan. At the time of her death, she has paid PhP 35,000, hence has a balance of PhP 5,000. Upon submission of the required documents, CARD MBA will:

- Pay the lending institution equivalent amount of the outstanding loan, which is PhP 5,000.
 - Pay the beneficiary an amount equivalent to that of the paid portion of the loan, which is PhP 35,000.
- 2) **AutoLOAD.** This is Automatic Loan Offsetting After Disability. Upon total and permanent disability of a member-borrower, she will no longer be obliged to pay the remaining loan balance. In contrast with Benefit 1, the paid amount will no longer be given back to the member or her beneficiary.
- **Other Non-financial Services:**
 1. **CARD MRI Disaster Relief Assistance Program (CDRAP).** Being an institution that truly cares for its members, CARD extends assistance through relief goods distribution to member victims to natural disasters (typhoons, earthquakes, flood, etc.).
 2. **Mass wedding** is an additional service offered to members who have live-in partners and who have been with CARD for at least ten (10) months. The main purpose of such service is to enable the live-in partner to be one of her legal dependents. CARD MBA shoulders for the documentary requirements relative to the wedding.
 3. **Credit Bureau.** CARD MRI has established the database of its membership in order to keep track of possible dual membership within CARD and its affiliates.

CARD MBA's Build, Operate and Transfer (BOAT) Program¹²³

Aside from providing services to its members, CARD MBA also extends assistance to other MFIs who intend to provide microinsurance services to its clients and thereby be transformed from informal microinsurance provider to a licensed MBA. This is through CARD MBA's Build, Operate and Transfer (BOAT) Program, which was initially funded by the Catholic Organization for Relief and Development AID (CORDAID).

This is a partnership scheme wherein the MFIs team-up with CARD MBA as they are called BOAT Partners. Under this program, the members of a BOAT partner will be members of CARD MBA enjoying the same benefits given to CARD members. At the onset of the partnership, “CARD MBA will build the MBA infrastructure and operate it” through the BOAT Partner’s internal personnel. This also serves as their preparation and capacity building that after a period of three (3) years, they would be able enough to manage their own MBA. During the 3-year period, technical assistance and transfer of technology is facilitated. Today, CARD MBA has already fourteen (14) partners all over the country. BOAT Program is how CARD MBA puts it as “promoting mutuality in the Philippines”.

Lessons in advancing microinsurance in the Philippines¹²⁴

As the premier advocate of microinsurance in the country, RIMANSI shares its learnings in laying the groundwork and pushing for policy reforms, much-needed in the sector. It indicated the importance of understanding the socio-economic and political context as well as the attributes of microfinance and insurance industries in the Philippines. A holistic approach to advocacy is more effective to picture the potentials and possible threats to be addressed accordingly. RIMANSI also articulated that building synergistic relationships with stakeholders is an imperative as well as communicating causes through systematic IEC activities. The organization likewise learned that establishing partnerships specifically with regulators and practitioners is essential. RIMANSI, together with the experiences of other Philippine-based MFIs, CARD MRI in particular, summarizes lessons and learnings as follows:

- Policy framework is crucial.
- Advocacy should be anchored on facts and sensitive to emerging developments.
- Know your stakeholders.
- Inform, educate, and advocate at two levels: lobby with regulators and mobilize other stakeholders.
- Keep abreast of developments.
- Work with issues, not personalities.
- Build strong partnerships.
- Show results.

5. Conclusion

Microinsurance, the provision of insurance protection to low-income households, is relatively new and limited in Cambodia and Vietnam in contrast with the Philippines where a conducive policy environment can be observed. The presence of organizations providing technical assistance as well as donors enables further growth in the microinsurance industries, particularly in the three countries involved in this paper.

With the experiences of Cambodia, Vietnam and the Philippines, the role of microinsurance in poverty alleviation becomes more vivid. It is a common observation that MFIs are in a unique position to offer microinsurance for they have already built trust and connection with the people in the marginalized sector, not to mention the comprehensive operations scheme they have already established. For many development institutions, the question no longer lies whether they should venture on microinsurance, but more on “how and what manner” they are expected to do so.

To begin with, a favorable policy environment and a comprehensive regulatory framework should be in place. In Cambodia and Vietnam, albeit the lack of detailed regulatory framework, their respective Governments have already expressed (and now making moves in) their understanding of and support to the microinsurance industry. In the Philippines, this issue has been addressed and developments are being maintained (and pursued) long before. This endeavor is primarily credited to RIMANSI and its MFI affiliates. Their expertise and experiences becomes inspiration to others who wish to diversify their products and eventually channel microinsurance to the poorest in their countries.

It is also a clear fact that regulators and supervisors in charge should be trained on matters pertaining to insurance business as a whole and microinsurance in particular. Further, building and maintaining relationships with policymakers, regulators, practitioners, and stakeholders is an imperative not only in the context of microinsurance but in development advocacies in general. Sharing of technologies and expertise is also a potent strategy in strengthening and furthering the growth of microinsurance – and in addition, in documenting and adapting best practices to the local perspective.

To ensure that initial efforts and achievements would not be put to extinction, continued information, education and communication activities which are appropriate to the needs and capacities of the target clients must be integrated to regular operations framework.

It is thus safe to say that microinsurance has found its place in the development context of Southeast Asian Countries, particularly in the three countries in focus. However, continued efforts in fulfilling the abovementioned findings must be pursued for a successful conduct and expansion of microinsurance in Southeast Asia.

Footnotes

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