

# IN FOCUS: COMPETITIVE MARKETS AND ENABLING POLICY ENVIRONMENT



## SUBJECT

Competitive markets are best geared to respond to farmers' need and offer tailor-made insurance products. It is the government's responsibility to ensure a level playing field. This is particularly important in countries where state-owned insurers compete with the private sector. Policymakers and the regulator have to create a framework that provides all market players, public and private, the same access to infrastructure and services, such as access to data on weather or agricultural production. In countries where premiums are subsidized, all insurance companies have to be eligible to participate in the subsidy scheme, provided they fulfil the conditions set by the government, for example targeting of small-scale farmers.

## CHALLENGES IN THE PHILIPPINES

**High exposure to natural disasters.** With more than half of the population living in rural areas, agriculture plays an important role in the economy of the Philippines and provides employment to over 30% of the people. Due to its geographical location, the Philippines is highly exposed to natural disasters, in particular, typhoons. Annual losses for the agricultural sector are high: 497 million Euros in 2012, 380 million Euros in 2013, and 119 million Euros in 2014.

**Limited supply of products from state-owned insurers.** For nearly four decades only the public-sector insurer Philippine Crop Insurance Corporation (PCIC) was offering insurance to protect farmers against losses arising from natural calamities, plant diseases and pest infestations. Penetration rates for agricultural insurance remained low over the years: in 2013, PCIC insured a total of 732,654 "Small Farmers and Fisherfolks" (SFF). This represents a penetration rate of just 8%.

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**No policy framework in place to foster competition and innovation.** Several initiatives worked with the private sector to improve the supply of agricultural insurance, most notably by GIZ and MicroEnsure. However, the legal and regulatory framework for agricultural insurance was not conducive to introducing innovative products, for instance, weather or area-yield index insurance. In addition, there was no level playing field between the public and private sector due to subsidy support that was provided exclusively to PCIC.

## SOLUTIONS

### Create a conducive legal and regulatory framework built on public-private cooperation

**Enabling policy environment.** Since 2009, GIZ has been working in the insurance sector in the Philippines, for example by assisting the Insurance Commission (IC) with the creation of an enabling policy framework for microinsurance, the development of innovative area-yield index insurance for farmers and innovative typhoon insurance for cooperatives in rural areas. GIZ has also analysed lessons learned from its project experience in the Philippines and the policy challenges that limit the growth of agricultural insurance, for example the lack of a level playing field between public and private sectors. Based on this analysis GIZ has advised national policymakers on the need for legal and regulatory change to unlock business opportunities for agricultural insurers.

**Establishing a public-private working group.** In the second half of 2014, public and private sector stakeholders formed a Technical Working Group (TWG) under the leadership of the Department of Finance – National Credit Council (DOF-NCC). The TWG comprised regulators from the insurance, banking, and securities sectors, as well as the agencies dealing with meteorology and climate change. The private sector was represented by insurers, cooperatives, and financial institutions. Both GIZ and the Asian Development Bank (ADB) were members of the working group. The TWG was mandated to develop a conducive policy and regulatory framework for agricultural insurance.

**Learning from the microinsurance experience.** The TWG analyzed key lessons learned from the development of the microinsurance framework in 2009/10; for example, the importance of creating a level playing field for public and private insurers, or the need to allow the use of efficient and low-cost distribution channels for insurers, for example through cooperatives. RFPI provided technical expertise and conducted a study on how microinsurance helped over 120,000 families affected by typhoon Haiyan (Yolanda) in 2013.

**Disseminating international best practice.** RFPI utilized its links to the International Association of Insurance Supervisors (IAIS) – through the GIZ-managed Access to Insurance Initiative (A2ii) – to analyze international experience on policy frameworks and regulations for agricultural insurance. The project also carried out an analysis of international best practices related to linking disaster risk finance and disaster risk management to agricultural insurance.

**Drafting policy framework and regulations.** The TWG held three meeting sessions in 2014. During the sessions, RFPI provided technical expertise on drafting a new policy and regulatory framework. The TWG, defined agriculture insurance, the products, triggers, and stakeholders involved, among others. A draft for the new framework was developed in the third quarter of 2015. The objective of the document was to enable the provision of simple, affordable, and accessible agricultural insurance to low-income farmers. The key feature is the creation of an efficient and effective partnership between the public and private sector.





## LESSONS LEARNED

Changes in policy and regulatory frameworks do not happen overnight. The situational analysis and consensus building processes require several months. A strong in-country presence is needed for continuous support and technical advice. In the Philippines, the policy work also benefitted from an ongoing collaboration between GIZ with DoF-NCC, IC, PCIC, ADB, and other important stakeholders on the development of area yield index insurance. In early 2014 a working group was formed to assess the use of remote sensing-based radar data to determine rice yields. This research work helped to shape the policy dialogue for the agricultural insurance sector.

Partnerships between the public and private sector are built on mutual trust. An independent broker, like GIZ, helps create an atmosphere where the sensitive policy dialogue can take place. In the Philippines, it was beneficial that GIZ had been working with the Insurance Commission (IC) since 2009/10, when the Microinsurance Innovations Program for Social Security (MIPSS) helped to establish both the Microinsurance National Strategy and Microinsurance Regulatory Framework.

Policy support from the international community requires a close cooperation between the involved development partners. The coordination between ADB and GIZ ensured that the role of each party was defined and both actors could focus on their respective core expertise, for example RISP's previous experience with microinsurance or the development of innovative agricultural insurance products.

## OUTCOME

The Department of Finance-National Credit Council (DOF-NCC) and the Insurance Commission (IC) issued the Agricultural Microinsurance (MicroAgri) Framework Circular Letter number 2015-53, in October 2015. It is the first policy framework worldwide that focuses exclusively on agricultural microinsurance, both on indemnity and weather index products for low-income farmers. In accordance with the Philippines Insurance Law, the framework requires the occurrence of a "contingent event", such as a typhoon, for index products to trigger a payout. Thus, the framework only allows for weather index products; area-yield index insurance (AYII) is not admissible as a means to trigger payouts. These stipulations limit the choices in products that insurers have to reach out to farmers.

A policy framework is important in defining what roles the public and private sectors have to play for growing the agricultural insurance market. In the Philippines, new framework outlines how the public-sector insurer, PCIC, can support other insurance providers in product development, capacity building, or client education and act as aggregator or reinsurer.

Regulation is an important instrument to enable sustainable business models for agricultural insurance. In the Philippines, the framework allows agricultural insurers to apply the same business principles that insurers build their business strategy on, for example concerning the use of low-cost aggregators and distributors in rural areas.

Regulation for agricultural insurance is also required to protect consumers. The complexity of insurance products for farmers, especially index-based, calls for clear guidelines on the information responsibilities that insurers have towards farmers. The framework in the Philippines puts a clear spotlight on these issues.

A key issue for agricultural insurance is access to data. The private sector often mistrusts data provided by public sector institutions for fear of political interference. The policy framework in the Philippines foresees an agreement between the government and the insurance sector for a data sharing protocol that helps the sector grow. This data has to be packaged for insurance purposes with clear guidelines on access and data costs.

Another limitation of the framework is that it does not mention premium subsidies. By failing to do so, a key aspect of creating a level playing field has not been addressed. Overall, the development of the framework has been an important step on the way to open up the agricultural insurance market; but due to some of the limitations of the policy, private sector engagement has not yet grown significantly since the introduction of the framework.

More than a year from issuance, the MicroAgri Framework has not led to a significant change in the agriculture insurance sector due to a lack of insurance providers and a stagnant demand, despite the increased risk of natural catastrophes. Government subsidies are still only provided for premiums, not for other important areas such as information and data sharing, financial literacy, or tax incentives.



**Name of programme:**

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**Duration:**

2013 – 2015

**Programme area:**

Indonesia, Mongolia, Nepal, the Philippines, Pakistan and Vietnam

**Focus area:**

The Philippines

**Cooperation partner:**

Insurance Commission (IC) of the Philippines

**Local partner:**

Department of Finance

**Target group:**

Farmers

**Contact person:**

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