

MiMAP (RIMANSI) Focus Note #3

Mutual Microinsurers Keep Secure with Catastrophe Reinsurance

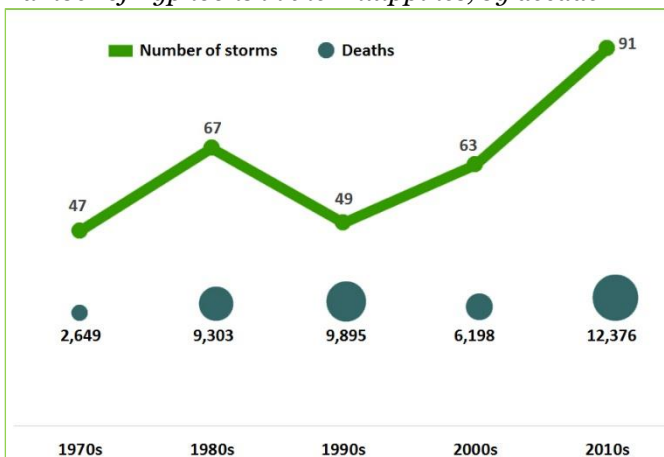
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December 2021

Background

We buy insurance to manage risks. For a price, insurance enables us to transfer the risk and responsibility for losses – that may or may not occur – from us, and then to an insurance company. Mutual insurers, such as microinsurance Mutual Benefit Associations or Mi-MBAs, collect contributions and premiums from thousands or millions of its low-income members every year to build a pool of funds to cover the costs from loss of life of affected members and their families.

As climate change brings more typhoons in the country, Mi-MBAs have raised a growing concern about catastrophic risks. Over the years, natural disasters have increasingly affected wider areas and bigger numbers of the population.

Number of Typhoons in the Philippines, by decade



Source: Asian Disaster Reduction Center, cited in Katharina Buchholz article, 2010s See Record Number of Storms in the Philippines, Statista.com

In 2012, the Microinsurance MBA Association of the Philippines (MiMAP), the network of

local Mi-MBAs, which back then had a collective microinsurance coverage of more than 9 million low-income individuals, worked out a catastrophe reinsurance treaty for its members with the National Reinsurance Corporation of the Philippines (Nat Re), the country's national reinsurer. Referred to as CAT-XOL or Life Catastrophe Excess of Loss Reinsurance Treaty, it provides risk protection to Mi-MBAs against loss of life or permanent disability of members resulting from natural disasters such as typhoons, earthquakes, and volcanic eruptions. Going on its 10th year, the CAT-XOL keeps the Mi-MBAs secured and bold as they grow and serve an increasing collective outreach of 26.81 million low-income individuals insured as of September 2021.

Reinsure for Security

As insurance has proven to be good to members, Mi-MBAs also find value in it. Indeed, they too have risks to manage. The Philippine Insurance Code moreover states that no insurer, other than life, is allowed to retain for its own risk the amount exceeding 20 percent of its net worth¹. This has given rise to reinsurance. An insurer who has insured and taken on a huge risk, can opt to transfer part of the risk with another company through reinsurance.

The CAT-XOL employs a risk-sharing mechanism between the Mi-MBAs and Nat Re, its reinsurer. When a natural catastrophic event happens, the first 30 lives involving loss of up to PhP1,000,000 form part of retained risks of each Mi-MBA; excess of loss beyond 30 lives is covered by the reinsurer up to PhP25,000,000 per event at a maximum of two separate events per year.

¹ Section 221 of the Philippine Insurance Code

Eight Mi-MBAs signed the reinsurance treaty on its first year, 2012/13. The number of participating Mi-MBAs has since increased to 17 under the current treaty of 2021/22. Over the years, the coverage has also expanded from members of Mi-MBA to members and their dependents. In terms of businesses covered, basic life with total and permanent disability rider was joined by credit life for micro loans ranging from PhP45,000-300,000.

Our big Mi-MBAs can get reinsurance on their own. At MiMAP, we are also concerned about our small ones with outreach of 10,000 members.

Reinforce Mutuality for Sustained Growth

Providing reinsurance to mutual insurers has reinforced mutuality within the local insurance industry. Indeed, to turn a bright idea into a viable financial product took commitment, resources and efforts from many stakeholders. The Board of Trustees of then RIMANSI Organization for Asia and the Pacific (now known as Microinsurance MBA Association of the Philippines, Inc. or MiMAP) held a number of meetings, commissioned an actuarial study, and searched for a suitable reinsurer. Nat Re, was introduced to the micro insurers, did its own due diligence, and eventually went on to co-develop a suitable reinsurance product. Their efforts paid off as all 17 Mi-MBA members of MiMAP are now protected from devastating natural calamities under the catastrophe reinsurance treaty.

Micro just got bigger. By banding together, small Mi-MBAs with an outreach of 10,000 members get to be part of a reinsurance treaty involving more than 7 million members courtesy of the bigger Mi-MBAs. The resulting large scale in number of lives insured located in

a wider geography, such as nationwide, brings the price to a fair and reasonable level. Small Mi-MBAs have not only gained access to vital protection; they have also benefitted financially with a price point they can afford.

Law of large numbers trims down gaps in risk calculation. Pooling a large enough number of people in an insured group allows the reinsurer to better predict its risks. It draws on the Law of Large Numbers which asserts that if the amount of exposure to losses increases, then the predicted loss will be closer to the actual loss². The total coverage of the CAT-XOL is no less than 26 million insured individuals to include Mi-MBA members and their dependents. This treaty, as such, is also designed to meet the risk protection requirements of Nat Re.

Macro potentials are unleashed. Open and regular dialogue grounded on a sound partnership in risk management has given rise to other opportunities to pursue. MiMAP has, for instance, requested Nat Re to explore the inclusion of pandemic and acts of terrorism in its reinsurance offerings. It has also brought in a more dedicated partner, RIMANSI Mutual Solutions Insurance Agency or RMSI to focus on the development of group-based insurance products for the mutual insurers. Motivated by the significant contributions of mutual insurers in the social protection of low-income Filipinos, Nat Re envisions a sustained partnership including the provision of support in the development of non-traditional product lines such as medical insurance (as an associated product in relation to the pandemic), that may involve higher risks but can respond to broader needs of members and bring outreach to new low-income market segments for mutual insurers.

Responsive risk management is key to growth and sustainability of the microinsurance sector.

² Law of Large Numbers defined in <https://iopscience.iop.org/article/>, The Application of Law of Large Numbers That Predicts the Amount of Actual Loss in Insurance of Life by G. Tinungki

Box 1. Claim from the CAT -XOL

Close to the end of year one of the reinsurance treaty on November 2013, Typhoon Yolanda (International name Haiyan) struck the Philippines. The National Disaster Risk Reduction and Management Council (NDRRMC) considers Typhoon Yolanda as the worst typhoon to ever hit the country causing widespread damage to infrastructure amounting to PhP93 billion and killing 6,300 persons. It affected a total of 3.4 million families / 16.0 million persons in 44 provinces of 9 regions (Data source: NDRRMC Update, Final Report re Effects of Typhoon Yolanda, 06-09 November 2013).

This much devastation triggered the filing of reinsurance claim by CARD MBA, the biggest MiMAP institutional member covering 9.2 million insured individuals at the time of disaster. CARD not only mourned the death of 220 members, but it also promptly provided much needed financial support to the surviving beneficiaries. Net of CARD MBA's retained risks and financial exposure, Nat Re settled a catastrophe reinsurance claim of PhP6.36 million.

This was the first and only claim so far in the 10-year period of the catastrophe reinsurance treaty.

Reinsurance has brought added boldness to the microinsurance sector to widely serve the low-income market with a broad range of relevant

microinsurance products. As key stakeholders continue to collaborate, great things are only bound to happen. ♦

[About MiMAP \(RIMANSI\):](#)

The Microinsurance MBA Association of the Philippines Inc. (MiMAP) or RIMANSI helps professionalize the management of microinsurance mutual benefit associations (Mi-MBAs) and microinsurance programs to provide affordable, comprehensive, and quality risk protection to millions of poor people in Asia and the Pacific. Towards this purpose, MiMAP assists Mi-MBAs in developing risk management solutions, building capacities, advocating for appropriate policy environment and pursuing research & development agenda.

[About Citi Foundation:](#)

The Citi Foundation works to promote economic progress and improve the lives of people in low-income communities around the world. We invest in efforts that increase financial inclusion, catalyze job opportunities for youth, and reimagine approaches to building economically vibrant cities. The Citi Foundation's "More than Philanthropy" approach leverages the enormous expertise of Citi and its people to fulfill our mission and drive thought leadership and innovation.

MiMAP (RIMANSI) Regular Members

1. Alalay Sa Kaunlaran Inc. MBA (ASKI MBA)
2. Center for Agriculture and Rural Development Inc. MBA (CARD MBA)
3. Cooperative Alliance for Responsive Endeavour Inc. MBA (CARE MBA)
4. KFI Center for Community Development Foundation Inc. MBA (KCCDFI MBA)
5. Kasagana-Ka MBA Inc. (KMBA)
6. Kazama Grameen Inc. MBA (KGI MBA)
7. Nueva Segovia Consortium of Cooperatives MBA Inc. (NSCC MBA)
8. Paglaum MBA
9. Peoples' Bank of Caraga MBA Inc. (PBC MBA)
10. Simbag sa Emerhensya Asin Dagdag Paseguro MBA Inc. (SEDP MBA)
11. Tulay sa Pag-unlad MBA Inc. (TSPI MBA)

MiMAP (RIMANSI) Associate Members

1. Center for Community Transformation MBA Inc. (CCT MBA)
2. Katilingbanong Kaangayan para sa Kasegurohan ug Kalaambuan MBA Inc. (4K MBA)
3. National Confederation of Cooperatives MBA Inc. (NATCCO MBA)
4. Pag-Asa ng Pinoy MBA Inc. (PPMBA)
5. Quidan Pag-inupdanay MBA Inc. (QPI MBA)
6. Serviamus MBA Inc. (SMBA)

Code of Conduct for Mi-MBAs

1. We have the member's interest above all else.
2. We commit to pay claims within 1-3-5 days from the time of claim's notice.
3. We foster policies and processes that promote open communication, transparency, and arms-length transactions in our dealing with partner-implementers.
4. We hold ourselves accountable as stewards of the Association's resources; therefore, we commit ourselves to the highest ethical and professional standards in our dealings.
5. Board membership is a volunteer position; hence we perform services willingly without pay.
6. We shall explore ways to engage our members to participate in the ownership, authority, and business results of the Association.
7. We are proud to be regulated, so we will work with our regulators to advance growth, quality service, and sustainability agenda.
8. We honor the member's right to choose an affiliation based on informed decision.
9. We advance products and services without regards of any religious or political standpoint.
10. We shall promote mutuality.



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