

Micro insurance



◆ **A safety net for all**

Monograph No: 01



Microinsurance: A safety net for all

Write up for The Philippine Star's 33rd Anniversary Issue
Dr. Jaime Aristotle B. Alip
Founder and Chair Emeritus
CARD Mutually Reinforcing Institutions (CARD MRI)

Delmar Geronimo lost his mother Marieta to a freak accident when a car plowed through her sari-sari store while she was taking a nap. With very little savings, the loss of a major breadwinner threw the family in financial turmoil. Marieta's membership with CARD afforded her family with a safety net during this unexpected crisis. Just three hours after reporting her death to CARD Mutual Benefit Association (CARD MBA), its staff were at their doorsteps with the claims payment. "CARD MBA is an organization that is always there in times of uncertainties. Its commitment to be responsive all the time is indeed real," declared Delmar.

The Geronimo family's experience brings to the fore the need for affordable insurance for low-income families. Initially, CARD established an internal mutual fund called the Member's Mutual Fund in 1994 that covered loan redemption in the event of a member's death. In 1997, a basic life insurance product and a pension scheme was developed. As more products were offered, i.e., accident, hospitalization, and sickness, a number of members made fraudulent claims. The painful lessons learned from this experience under the MMF made me realize that microinsurance was a different ball game from microfinance. Insurance needs a calculated risk management tool. We needed to explore the benefits of insurance as an actuarial science to help us determine the right amount of premiums for the corresponding benefit of the insured. Hence the decision to establish a licensed mutual insurance entity in 1999, the CARD MBA, which is wholly owned by the members. The transition to an MBA allowed the program to be sustainable and to reach those who are not served by conventional insurers.

Tailored-fit products

When CARD MBA finally received its license to operate as a regulated microinsurance company, it launched three new products: loan insurance, retirement fund, and family life insurance which insured not only the members but also their spouses and dependents below the age of 21. The premium is a low PhP20 per week or roughly PhP1,000 per year. Of this amount, PhP15 is allotted to life insurance while PhP5 is allotted to the retirement fund. Upon reaching the age of 60 or 65, a member receives a lump sum in benefits. Members likened themselves to professional teachers or employees who, at the age of 60, received retirement pay. Loans were likewise insured by another product, the loan redemption. Loan insurance premiums amounting to 1.5% of the loan was deducted from the loan proceeds, so that when a member died, the loan was fully paid by the MBA, freeing the family from financial responsibility. But unlike the provisions of other insurance companies, in case 70% of the loan had already been paid, CARD MBA awarded the full 100% in benefits to the family. Another outstanding product is the separation or resignation benefit. When a member resigns, she receives 50% of all her contributions with interest, less the payment of claims (if she had any). Moreover, during calamities like typhoons, fires, earthquakes, floods and other man-made calamities, affected members are given relief goods such as rice, food, medicines, and clothing.

CARD MBA pioneered the revolutionary claims settlement known as the 1:3:5 scheme. This refers to a mode of payment wherein, if there was a claim, the marching order was to pay the benefit of the member within the day of the filing; should a question arise, then the claim is paid within a maximum timeline of three days; and if more documents are required, payment decision would be effected within five days. In 2017, CARD MBA decided to make the claims process even shorter to 8-24 hours only, after its consistent high rating of 98% achieved for claims settlement. This feat was achieved by the presence of nearly two thousand volunteer coordinators in the areas where CARD operates by validating the claims as soon as they are reported. As of January 2019, CARD MBA had a total membership of more than 5 million families, providing life insurance to 18,413,966. This represents approximately 17% of the Philippines national population of 105 million. As May Dawat, the CEO of CARD MBA concluded, "paying timely claims builds microinsurance acceptance."

1:3:5



Claims Payment

Growing network

The success of CARD MBA has been noticed in the national and international setting. In fact, in 2004, I, together with 10 other microinsurance organizations, came together in a forum, which led to the creation of RIMANSI, a microinsurance technical resource center that promotes universal risk protection for the socioeconomically disadvantaged in the Asia and the Pacific region.

RIMANSI's network of microinsurance-mutual benefit associations (Mi-MBAs) has reached 6.4 million members, insuring 23.24 million Filipinos nationwide. At least 80% of the market share comes from CARD MBA.

 wider outreach

An Integrated Approach



As CARD responded to its client's needs based on regular client satisfaction surveys, CARD MBA created new institutions to address the non-life insurance needs of CARD clients. It established the CARD MRI Insurance Agency (CaMIA), a microinsurance agency that brokers the non-life insurance requirements of the clients such as property insurance, crop insurance, health insurance, disaster insurance, and accident insurance.

CaMIA's products were particularly tested when Typhoon Haiyan hit Tacloban, Leyte. CARD was at the forefront of the national and international disaster response effort, paying claims to its members and handing out cash right there at the village level, familiar as it was with client needs. More than half a million members were affected by this devastating typhoon, with 501 deaths recorded, including members and their dependents. We also lost one staff. All told, CARD MBA, in league with Pioneer, paid PHP200 million in insurance benefits and financial support to its members. Pioneer itself had become a staunch advocate of microinsurance for the poor, and had seen the potential of the market where, through the CARD network, the coverage of non-life assets could be a viable proposition.

The main disadvantage of CaMIA was that as an agency, it did not have the capacity to come up with its own microinsurance products. Moreover, it had to work constantly in partnership with licensed non-life commercial insurance companies. These companies, with the exception of Pioneer Insurance, did not practice 1:3:5 such that CARD MBA was upfronting the claims payments so clients would not have to wait. This led to the formation of a joint venture non-life microinsurance company called the CARD Pioneer Microinsurance Company (CPMI). The IC came to recognize CPMI as the first non-life microinsurance company in the Philippines. In fact, when CPMI started in 2013, it ranked number 67 in the non-life insurance industry. Today, it has moved up to the Top 5 position in terms of profitability and operational efficiency.

Lessons learned

It has been two decades since we started the concept of microinsurance here in the Philippines. Implementing microinsurance is a challenge especially for us who are microfinance practitioners, but we are proud of how CARD MBA's journey continues to affect change in the lives of many Filipinos. Despite the differences of the two fields in terms of operations, they can still work interdependently. Financial institutions like banks, cooperatives, and microfinance institutions should look at microinsurance as an added value to their operations.

We also learned that while misconceptions are difficult to break, it is do-able. Changing the mindset of Filipinos about microinsurance was one of the barriers we had to overcome. We implemented learning sessions to increase their knowledge, but ultimately, staying true to our word of delivering our services efficiently was key to overcoming this challenge. When our members became our own microinsurance ambassadors, we knew that we have finally changed their minds.

With our more than thirty years of service to the Filipinos through social development programs, we recognize we could not eradicate poverty on our own. We need to build and strengthen partnerships with organizations whose mission and vision are aligned to our goals. By working together with the Insurance Commission (IC) and the Department of Finance (DOF), policies related to the security of the masses are indeed pro-poor and pro-people.


Looking ahead


Having the most advanced microinsurance framework in Asia, I envision the Philippines to be the microinsurance capital of the world. As of today, we have projects in Southeast Asian countries for technical assistance to other MFIs so that they, too, can be equipped in providing a safety net to the masses. We are honored to share our methodologies to other institutions in and outside the country so that more families can have access to microinsurance.

Nowadays, technology is just in the palm of our hands. As an industry, we should also explore the continuous integration of our manual processes into digital platforms to lessen the workload on the field and make the transactions faster and easier. This is also in preparation for the future of microinsurance company whose workforce is composed of digital natives. Though we may transform our processes digitally, we understand the importance of face-to-face interaction with our members. We will always remember our roots wherein communicating at the community level is of utmost importance.

Many may think that as an organization, CARD only provides financial access to the poor. However, financial inclusion should not be viewed as a separate field from microinsurance. At the point where financial access and microinsurance intersects, there we find a future when Filipinos are finally free from the destructive cycle of poverty.



 20 M.L. Quezon St., City Subdivision,
San Pablo City, Laguna, Philippines

 Tel: (049) 562-4309
Fax: (049) 562-0009

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 @cardmri

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 www.cardmri.com