Microinsurance and Mutual Benefit Associations as a Solidarity Based Social Protection System for the Informal Sector:
The PAKISAMA Mutual Benefit Experience

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In this article, micro insurance will be introduced as a general concept and its relevance in addressing the issues of poverty, social exclusion and social protection especially among the informal sector. This paper also promotes the idea that establishing a micro-insurance system by and for the populations involved must take place in the context of self-help and solidarity.

The main methodology in the writing of this paper is a review of literature and a reflection on the personal practice of the writer as a management consultant of the Pakisama Mutual Benefit Association (PMBA) for the past three years. However, compared to the subject matter of social protection in general and of micro-credit and cooperatives in particular, there is a dearth of literature tackling the issue of microinsurance and of mutual benefit associations.

Finally, to employ a more comprehensive or in-depth means of exploring this subject matter would require some considerable amount of time and resources on the part of the writer which is not available at present. Because of this, the writer merely focused on the experience of the PMBA as a case study to illustrate how a mutual benefit association works and not as an example of "best practices" in managing a micro-insurance program in the context of a mutual benefit association.

What is the Informal Sector?

The ILO (1994), describes the informal sector as composed of workers (sometimes called informals) who are either self-employed or employed in micro-enterprises whose owner is personally liable for gains and losses of the enterprise. In addition, these enterprises keep inadequate or no financial records at all and have less than ten employees at any given time. These enterprises are usually unregistered with the government hence, does not possess a so-called legal personality.

But apart from the informality of the enterprises that employs them, their employment is usually governed by informal labor relations that are characterized by the absence of or inadequately written labor contracts. Such informality does not only affect wage-earners and other groups such as homeworkers but also casual laborers who work directly or indirectly for the formal sector enterprises.

On the other hand, the Social Reform Agenda of the Ramos administration in 1994 defines the informal sector as "very small scale units producing and distributing goods and services and constituting of independent, self-employed producers in urban and rural areas, some of whom also employ family labor and/or a few hired workers or apprentices, which operate with very little capital or none at all; which utilize a low level of technology and skills; incomes and highly unstable employment." (Gonzalez & Manansan 2002)

The workers in the informal sector is so varied that almost all people that fits the above description can be considered as informals. An indicative typology can be constructed using two principal variables: location of employment whether urban or rural based and employment status whether the workers are self-employed or are wage earners.

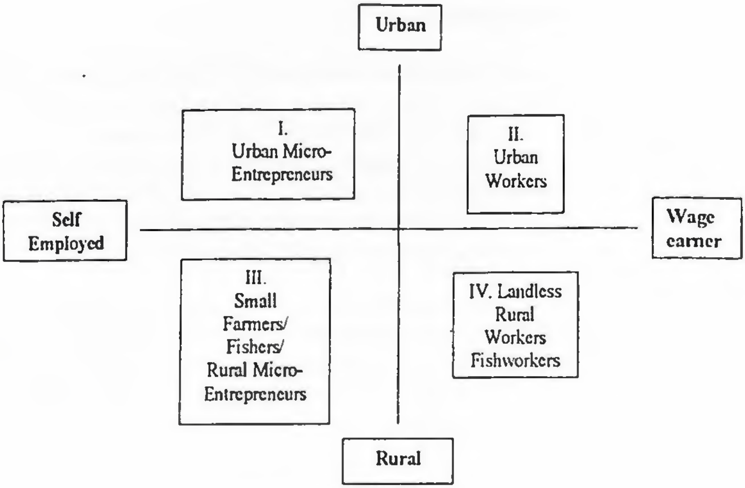

Figure 1: Indicative Typology of Informal Workers

The first quadrant is described as composed of self-employed people or micro-entrepreneurs such as sari-sari store owners, ambulant vendors, market vendors, barter traders, transport operators, and the like. The second quadrant is basically composed of people who earn a living as wage earners either in a regular or casual basis. They are sometimes employed by the micro-entrepreneurs or are employed directly or indirectly in the formal sector enterprises that are not compliant with existing labor standards and compulsory state social insurance schemes. They could be the construction laborers, home workers, transport drivers and domestic helpers.

The third and fourth quadrants are composed of informals working in the rural areas. The main compositions of the third quadrant are the small farmers, forest dwellers and municipal fishers who operate their own mechanized or non-mechanized bancas. This quadrant likewise includes the micro-entrepreneurs based in the rural areas whose business line is generally similar to the first quadrant informals, this may include small mining operators, grain millers and other agriculturally related or resource based enterprises. The fourth quadrant is composed of wage workers such as landless rural workers, fishworkers, and small miners usually employed in a seasonal basis and are migratory.

Given the location and nature of their work, it is easy to imagine how vulnerable these groups are to various risks related to their occupation or their daily living. Workers in the informal sector are generally economically poorer and are more frequently subjected to various risks connected with their work. Majority of these "informals" have incomes which hover around the poverty line and cannot always devote part of their income to provident measures and actions to improve their overall well being or that of their families. The non-regularity of income and the seasonal fluctuations of their earning levels also limit their capacity to access needed social services on a regular basis.

In agriculture for example, the self-employed (poverty incidence of 42.1%) are just as likely to be poor as the wage earners (poverty incidence of 43.8%). The poor self-employed heads of households are primarily lessees, tenants, and subsistence owner-cultivators account for over 50 percent of the country's poor. (Almazan, 2003)

All these informals have very different working conditions which have a direct impact on their social protection needs and on the way they can organize this social protection for themselves.

What are the living & working conditions of the Informal Sector?

Those in the informal sector are working under generally poor working conditions. These are characterized by poor welfare facilities, unsanitary and cluttered surroundings, and lack of potable water supply, poor lighting and the like. Home based workers are primarily susceptible to this situation. The families of these workers are also greatly exposed to the same risks of illness and accidents because the work is done within or near their homes.

Those working in the manufacturing are exposed mainly to accidents such as machine and electrical related accidents, even in repair services, other trades and construction work. Accidents due to falls are mostly found in construction. Food poisoning may be one of the risks facing food peddlers due to unsanitary surroundings and lack of clean water. Ambulant and street vendors may face the risk of road accidents, not to mention the risk of being arrested by the local police for plying their trade without a business permit. In the agricultural sector, risks are often related to sudden changes in the season or climate and the threats of natural calamities, pest infestations and chemical poisoning arising from the use of pesticides, weedicides and chemical fertilizers.

The working conditions of the female informals on the other hand, are aggravated by the risks associated with their work. The type of work mostly engaged in by women such as laundry, washing and ironing, sewing, selling food or merchandise on the streets and in the market usually entails very long hours of work. These expose the women more to suffer psychological and physical stress as they strive to balance their responsibilities both at work, at home and/or in the community. In the farming process for example, women participate mostly in the following activities: land preparation (66%); caring of crops (38%) and harvesting (29%). This means that rural women face the elements and other common risks involved in farming, including the back breaking work in the field. Although women work for lesser paid hours than men in agriculture, does not hide the fact that they work longer hours in unpaid work that is not registered in the national income accounts, such as in taking care of the home, the children and the needs of men at work. (Almazan 2003)

Likewise, the working conditions of child laborers are aggravated by being exposed to risks that are sometimes worse than what the adults experience. These are characterized by long working hours, unhealthy environment and hazards in the workplace which stunt their growth and development. Almazan (2003) reported, for example, that most of these working children were workers in their own household-operated farms or business (2.4 M or 59%); three out of five working children did not receive any payment for their labor; one in every four worked during nighttime and that majority (59.4%) of them were exposed to hazardous environment.

The Informal Sector: A Growing Phenomenon in Developing Countries

All over the world especially in the developing countries, there has been a significant increase in the number of people working in the informal economy while more formal enterprises have been subcontracting mostly their production and service requirements to the informals as external providers. Self-employment, casual or contractual arrangements or part-time jobs are now becoming the typical form of work arrangements, which is quite the opposite about 25 years ago.

The trend towards flexibilization of labor in response to competitive pressures on the global market has resulted in the growth of "atypical" or "non-standard" forms of employment such as part-time or home work. It has also weakened labor standards and results in the global phenomenon of the "race to the bottom" in labor standards.

In the Philippines, the proportion of people becoming self-employed casualized and contracted for part-time or piece meal work is steadily growing for the past years. Work in the informal economy now constitutes, by some estimates, from half to three-fourths of the Philippine economy and labor force as much as in overseas work whose nature is likewise contractual and flexible. Additionally, the preponderance of micro and small enterprises employing 10 or less workers combined with a weak labor inspectorate, where about 250 labor inspectors are supposed to inspect about 820,000 business establishments, are factors that contribute to increasing trend of labor flexibilization. This is where the irony lies. While the micro and small enterprises (both farm and non-farm) constitute almost 90% of all business establishments in the country and its biggest employment generator, the development of the micro and small enterprises also contributes to the growth of the informal sector. (Almazan 2003)

Women, especially those belonging to the poorer sector, are highly represented among informal economy workers, experiencing worse working conditions with lower or no wages. They engage in such activities because of the need to combine family responsibility with jobs and because of the lack of other income-earning opportunities. In fact, the women constitute around 35 percent of those working in the informal sector.

With this growing size of the informal economy, more and more informals are being exposed to the abovementioned risks. Hence there is need for a simultaneous response to this increasing growth of the informal sector workers with the corresponding expansion and coverage of responsive social protection services.

Common Risks Faced by Informal Workers

Risks have always been part of the human condition. The households of informal workers are exposed to a range of risks on a day to day basis. Some of the most common risks faced by these households range from the more predictable "life cycle needs" to the more unpredictable risks such as illness or injury, death of a family member, natural and man-made calamities and theft. Life cycle needs are those common expenditure requirements of the households associated with the life cycle events in the life of a person such as pregnancy, birth, education, marriage, livelihood, food, housing, retirement or old age and the like.

When these risks occur, like there was fire in a slum area, the households incur corresponding financial losses such as rebuilding a shanty. These risks vary in degree or magnitude depending on the type of work engaged in, the location and setting of their residence or place of work and the level of hazard attached to the work or the location of their residence. Households exposed to a risk suffer ongoing uncertainty about whether and when a loss might occur. For example, if a house is located in a landslide prone area the family may be unwilling to improve their house for fear of losing the house to a landslide.

The more unpredictable the risk is, the more potentially damaging the outcome will be for the poor household. Several studies have demonstrated that households exposed to greater risk-uncertainty are less likely to take advantage of growth opportunities, such as investing in new technologies or additional working capital, that would likely lead to increased wealth and reduced poverty. As a result, households exposed to a great deal of uncertainty, which tend to be the poorer households, are often unable or unwilling to use the traditional growth-focused products provided by most microfinance institutions. (Brown & Churchill, 1999)

The term "risks" relate to the possible occurrence of a future event, usually an undesirable one, against which one must be protected. Sources of risk are diverse, and all populations are susceptible to adverse shocks resulting from natural, health, social, economic, political and environmental risks. Depending on the number of individuals or households that are simultaneously affected, risks are either idiosyncratic (individual) or covariate (aggregate). As the term imply, idiosyncratic risks are those that occur when only one or a few individuals or households in a community suffer losses, whereas covariate shocks affect a large number of households, entire communities, regions within a country or countries. Some of these risks may result from acts of nature, whereas others are caused by human activity. These risks are not evenly distributed among all men and women, hence people are equally exposed.

Brown and Churchill (1999) have developed a bubble diagram (Figure 2) to illustrate the degree of uncertainty and loss of each major risk faced by low-income households and communities.

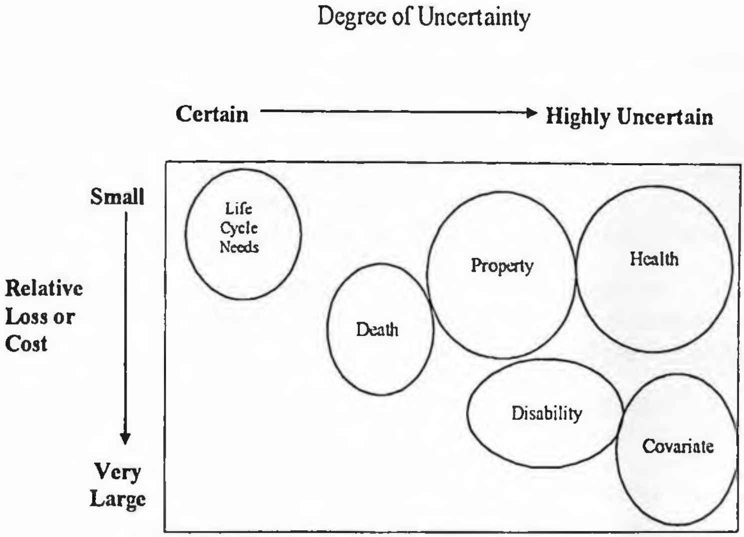

Figure 2: Bubble Diagram of Risks

Examples of risks occurring at the individual or household levels include those associated with health, such as illness, disability, old age, death or social shocks such as crime and domestic violence. Aggregate risks affecting large populations can include natural disasters (typhoon and tsunami), health epidemics (SARS and bird flu), environmental calamities (oil spill), political (civil war) or economic (oil crisis) risks.

Certain individuals and groups are more vulnerable to certain risks than others because of socio-demographic characteristics, economic status, nature of work, physical or mental condition, age, lifestyle and so forth. For example, a policeman is more exposed to risk of death compared to a *carinderia* worker; a 60 year old man is more prone to accident and illness compared to a 20 year old young man; a cigarette smoker is more prone to get cancer than a non-smoker and women has a statistically longer lifespan than men, etc. Vulnerability is a state of high exposure to certain risks, combined with a reduced ability to protect or defend oneself against those risks and cope with their negative consequences.

Implications of these Risks to the Lives of Informal Workers

As illustrated in the previous sections, risks involve costs or financial burden on the part of the informal worker and his family and its occurrence aggravates conditions of poverty. The financial as well as psychological burden of being a victim of risks could further prevent an individual and even groups of individuals from engaging in productive work.

Economic limitation due to the poverty situation manifested in lack or inadequate family income limits the ability of informals to access social welfare programs.

Related to the above, an inadequate or irregular income leads to a temporary financial limitation. When the family does not immediately have the necessary means to pay for risk related expenses it consequently delays the seeking for assistance. Partial limitation happens when there is not enough means to pay for all the required assistance. Seasonal limitation occurs when the income of the informal fluctuates on a seasonal basis as in agriculture.

Personal or family savings (cash or in kind), if ever there is any, meant for other welfare purposes is affected. Hard eamed savings are drastically and unexpectedly used to ease financial burden of risks. Consequently, other welfare objectives of the family such as education or shelter are delayed or worse given up completely to the detriment of the overall improvement of the quality of life of the family.

Coping Mechanisms of the Informal Workers vis-a-vis these Risks

Poor families cope with various risks differently. There are those who make use of traditional or usual mechanism to cope with these risks. Others plan or had the foresight to prepare for common risks such as illness or death.

Among the poor and informals, the usual coping mechanism is based on the traditional attitude of fatalism, meaning to wait until an idiosyncratic event occurs and then try to raise the necessary means to pay for all related expenses as it come.

Others are engaged in pre-payment and some form of social protection schemes aimed at covering the common risks or needs. There are indigenous social protection schemes that exist in Philippine society, some examples of these are the following: (Sta. Clara, et. al., 1995)

Bataris – an Ilocano system wherein the working partners are morally obliged to provide assistance to each other in cases of emergency. These partners have the same task in the same field. Assistance is in the form of labor or service in case one partner is unable to work or needs an extra hand.

Arayat or Abuluyan – refers to aid provided for burial, educational and travel expenses. The family members of the deceased, neighbors and friends contribute to this fund.

Tomohan – a practice involving a group of persons who collectively undertake an activity. Members take turns in receiving the pooled labor.

Paluwagan – a savings scheme where money is pooled together by group of people who agree to contribute equal amounts of money on a regular basis. It will be used by each member of the group on a rotation basis for whatever purpose.

On the other hand, other groups enroll themselves in institutional insurance schemes organized by the state such as the SSS, GSIS, PhilHealth or by the commercial insurers.

While others still are engaged in the delivery of social protection schemes themselves just like in the tradition of the indigenous schemes but in a more organized and systematic manner either under the aegis of micro-finance institutions, cooperatives or mutual benefit associations.

What Is Social Protection?

Various multilateral and bilateral aid agencies have produced different definitions of social protection based on their own experiences in the regions where they operate. Much of the information in this section was taken from the website of the Asian Development Bank.

The International Labour Organization (ILO) was founded almost 90 years ago to work for what it calls the Four Pillars of Decent Work: rights at work, employment, social protection and social dialogue. Its definition of social protection has changed through the years depending on the call of the times. In recent times, the ILO has adopted as its global thrusts the broadening of coverage and effectiveness of social protection for all. The ILO is working on income security with an emphasis on the poor, identifying cost-effective and equitable ways by which social protection can be extended to all groups, and shifting from government-run programs to emphasis on provision of social protection to the informal sector. An example of this is the launching of the global program called the "Strategies and Tools against Social Exclusion and Poverty" or STEP. Since the launching of STEP, the ILO has been involved in the promotion of micro-insurance particularly in the field of health. However, social protection is still conceived mainly in terms of labor and social insurance.

The World Health Organization (WHO) on the other hand has predictably viewed social protection more in terms of health for all. In its 1978 Alma-Ata Declaration, the WHO launched a two pronged approach: health for all (HFA) which was basically a call for social justice as part of development; and primary health care (PHC) or first level universal coverage organized by governments.

However, it was recognized later that universal coverage under PHC was not attainable in most developing countries through government health systems. Instead the WHO encouraged communities to assume responsibility over their own initiatives and destinies. (Ottawa Charter: WHO 1986) It was recognized that even poor households can and do pay for health care and their communities can generate income to cover the recurrent costs of basic health services to complement or replace weak public health agencies. (Bamako Initiative 1987: WHO 1988) This entailed decentralizing the decision making of the state from the national to local levels, and community participation in terms of financing and management of primary health programs.

The World Bank (WB) focuses on what it calls "social risk management" as the conceptual framework for its Social Protection Strategy Paper, consistent with its Comprehensive Development Framework and Poverty Reduction Strategy Papers (PRSPs). Social protection is defined as public interventions oriented to human capital to (i) help individuals, households, and communities manage risks better; and (ii) provide support to the incapacitated poor.

Social risk management views all individuals, households, and communities as vulnerable to multiple risks coming from different sources, whether they are natural or man-made. It believes that the poor are typically more exposed to risk and have lesser access to risk management instruments than people with greater assets. Dealing with risks involves recognizing their sources and economic characteristics, for example, whether they affect individuals simultaneously or in an unrelated manner. The most appropriate combination of risk management strategies (prevention, mitigation, or coping) and arrangements (informal, market-based, or publicly provided or mandated) in any given situation depends on the type of risk and on the direct and opportunity costs and effectiveness of the available instruments.

In the Latin American region, the Inter-American Development Bank (IADB) defined social protection as prevention and compensation systems to reduce the impacts of shocks on the Latin American poor. The definition was influenced by a series of natural and economic crises which confronted the region in recent years. An example of these are debt crisis and structural adjustment shocks in the 80's and the 90's and the frequent natural disasters such as the hurricane Mitch in 1998 and earthquakes in Mexico in 1985 and Colombia in 1994, and floods and droughts resulting from El Niño. The key objectives of the IADB social protection strategy are to (i) guarantee minimum consumption levels and access to basic services for those permanently unable to provide for themselves (i.e., the aged and disabled); (ii) strengthen the asset base of the poor to reduce their vulnerability to shocks; (iii) ensure continued investment in human capital during periods of crisis in order to avoid irreversible long-term consequences for children; and (iv) provide security to the poor to improve their economic choices and allow them to take entrepreneurial risks and earning capacity.

Likewise, the Asian Development Bank (ADB) views social protection in terms of labor markets and social insurance. However, in recent years it also started focusing its attention to what it calls micro and area-based schemes of social protection including the protection of children. Just like its counterpart in Latin America, the ADB was also confronted by the recent Asian financial crisis which resulted in high levels of unemployment and reduction in publicly run social protection programs.

The ADB noted that a common feature in all countries in the region are the need to address child and youth issues, extend coverage to poorer communities, improve governance, and promote institutional development. In general, all subregions have reduced expenditure on social protection schemes in the last decade in an attempt to balance budgets and achieve macroeconomic stabilization. Since the Asian Crisis, the effect has been to increase poverty, insecurity, and social exclusion of vulnerable groups.

To achieve the Millennium Development Goal of halving poverty by 2015, the Department for International Development (DFID) emphasizes requirements of economic growth, equity, and security. DFID supports a rights-based approach to poverty reduction. Decent living standards, access to services and security are part of the fabric of rights of poor people. These rights are enshrined in national laws, international agreements and covenants, including Core Labor Standards, and form the basis on which development organizations formulate their policies. Participation in the formulation of such policies by poor people is an equally important part of a rights-based approach. And the issue of security, in a broad sense, is central among poor people's priorities. DFID has worked extensively on the notion of sustaining livelihoods to promote opportunities for all citizens and reduce poverty. In this context, social protection refers to the public actions taken in response to levels of vulnerability, risk, and deprivation for those who fall temporarily or persistently under levels of livelihood deemed acceptable within a given polity or society.

Regardless of the basis of the definition and its main focus, social protection specifically seeks to:

1) Reduce the vulnerability of low-income households with regard the basic consumption and services;

2) Allow households to shift income efficiently over the life-cycle, thus financing consumption when needed; and

3) Enhance equity particularly with regard to exposure to and the effects of adverse shocks.

Social protection interventions contribute to the solidarity, social cohesion and social stability of a country. If well designed and implemented, these interventions can support sustainable economic development in a participatory manner.

Types of Social Protection

These various agencies have more or less defined the components of social protection. The ADB, for example, have defined five components of social protection in its strategy: (1) labor market policies, (2) social insurance programs, (3) social assistance and welfare service programs, micro and area-based schemes and (5) child protection. Table 1 shows the purpose, targets and possible programs for each component-type.

Table 1. Components, Purpose, Targets and Programs of Social Protection

Components	*Purpose*	*Targets*	*Programs*
Labor Market Policies	Policies and Programs designed to facilitate employment and promote the efficient operation of labor markets	Population in working age, being either wage or non-wage employees (formal or informal), employed, unemployed or underemployed	Labor Market Assessment, active labor markets programs, passive labor markets policies, safeguard related to compliance to national labor laws and core international labor standards
Social Insurance	Programs to cushion the risks associated with unemployment health, disability, work injury and old age	The sick, elderly widowed, disabled people, pregnant women, unemployed eligible for insurance schemes	Unemployment, work injury, disability and invalidity, sickness and health, maternity, old age, life and survivors
Social Assistance and Welfare Services	Programs for the most vulnerable groups with no other means of adequate support;	The mentally and physically disabled, ethnic minorities, substance abusers, orphans single-parent households, refugees, victims of natural disasters or civil conflicts, sick, elderly, widowed, disabled, pregnant women, and unemployed ineligible for insurance schemes	Welfare and social services, cash or inkind transfers, temporary subsidies, safeguard
Micro and area-based schemes	To address vulnerability at the community level	Rural and urban communities at risk	Micro insurance schemes, agricultural insurance, social funds, disaster preparedness management
Child Labor Protection	To ensure the healthy and productive development of the future (Asian) workforce.	Children and youth (0-18).	Early child development, school feeding programs, scholarships, or school fee waivers, waiving of fees for mothers and children in health services, street children initiatives, child rights advocacy/ awareness programs, youth programs and family allowances.

Source; ADB, "Social Protection Strategy", 2000 as cited in Asper 2004.

Existing Schemes for Social Protection

Following the typology developed by ADB, the Philippine context of social protection is tabulated in the table below:

Table 2: Indicative Listing of Public and Micro Social Protection Schemes in the Philippines

Components	Program Name and Description	National Agency	Type of SP Schemes	Funding
Labor Market programs	Public employment Service Offices (PESO), an employment matching, placement and counselling service	DOLE/ LGU	SA, universal	GAA
	Philjobnet, a computerized job matching service	OOLE	SA, universal	GAA
	Community-based Training and Enterprise Development Program (CBTED), a training cum entrepreneurship scheme to promote livelihood and employment	DOLE/ TESDA	SA, universal	GAA
	Private Education and Student Fund Assistance (PESFA), a scholarship program for post-secondary technical and vocational education for poor children	DOLE/ TESDA	SA, means-tested	GAA
Social Assistance	Program of the DSWO	DSWD	SA, means-tested	
	Kalahi, an anti-poverty program placing priority on redistributive reform following 5 core strategies: asset reform, human development services, livelihood and employment opportunities, participation in governance and institution-building, and social protection and security from violence	NAPC	SA means-tested, geographically targeted; with enrollment of a targeted number of PHIC	GAA and foreign grants

Components	Program Name and Description	National Agency	Type of SP Schemes	Funding
Social Insurance	Social Security System, an insurance-based program for private sector employees and self-employed workers, delivering six of the nine benefit branches of social security A Flexi-fund program is established for Overseas Filipino Worker	SSS	SI, defined-benefit, scaled premium, partially funded Provident Fund	Contributions of EE and ER and investment income contributions
	Government Service Insurance System, same as SSS with focus of coverage on public sector employees. In addition to SS benefits, GSIS administers a life insurance program for its members	GSIS	Same as SSS	Same as SSS
	Employee Compensation, an insurance-based scheme providing benefits for work-related injuries; administered by SSS for the private sector and GSIS for the public sector	ECC	Employer Liability	
	Home Development Fund or Pag-Ibig, an institution devoted to financing housing of covered members , as well as providing providential assistance or loans to same	Pag-Ibig	Provident Fund	Contributions and investment income
	Health Insurance, a program for both private and public sector wage eamers; now expanding membership to self-employed and informal sector workers	PHIC	SI, defined-benefit	Contributions from EE and ER and government
	Overseas Workers Welfare Fund	OWWA	Provident Fund	Contributions from OFWs
	Social Amelioration Program, an insurance-based program for sugar industry workers enacted under RA 6982, giving cash bonus, maternity and death benefits as well as funding for socio-economic projects of the beneficiaries	DOLE and tripartite SAP Board of Trustees	Provident Fund	Levy from % sale of sugar products computed per picul
	Crop Insurance Program, Insures agricultural crops like paddy rice, com, tobacco and high value commercial crops, livestock	PCIC	SI, with government subsidy	Investment income and government subsidy

Components	Program Name and Description	National Agency	Type of SP Schemes	Funding
Micro Insurance and area-based schemes	Novaliches Development cooperative, Inc. (NOVADECI), a private-sector, NGO type of Micro-insurance for the urban poor sector providing providential loans and mutual benefit assistance to members	NOVADECI, an NGO	Insurance-related scheme	Contributions from members
	ORT health Plus Scheme, a rural-based micro-health insurance scheme, providing limited health-related services to covered members	ORT Health Plus	Mutual fund type	Contributions and foreign assistance
	PAKISAMA Mutual Benefit Association, a peasant-organized mutual fund with a re-insurance scheme providing providential assistance to members including death, accident and sickness benefits	PMBA, Inc.	Mutual fund type with re-insurance scheme	Contributions and invesiment income
Child Labor Protection	The Philippine time-Bound Program, to eliminate child labor	OOLE/ILO	SA, means-tested	GAA and foreign grant from USAID
	GATSPE, a basic education scholarship program for children in elementary and high school	DepEd	SA, means-tested	GAA

Source: *Asper, Antonio, "Social Protection in the Philippines" (2004) ; Almazan, Rainier; "How Decent is Work in Philippine Agriculture?" (2003)*

What is Micro-Insurance and what brought about its development?

Globally and in the Philippines, micro-insurance is an emerging development intervention under the broad category of micro-finance. Micro-finance in general, is commonly associated with micro-credit. But in reality when we say micro-finance it means the whole range of financial services accessed by the poor to support their providential and productive concerns at the time they needed it such as credit, savings, pawning, money transfers, insurance and the like.

The use of the term "micro" refers to the ability of a program to handle small cash flows (by way of both incomes and expenses) of the poor and not really to the size of the scheme. This concept is premised on the idea that the poor has funds that can be used for providential and other welfare purposes, although in small amounts and sometimes in irregular frequency.

Thus Abad (2001) defined micro-insurance as "a mechanism to pool both risks and resources of whole groups, to provide protection to all members against financial consequences of mutually determined risks. Because of the small scale nature of their operation, micro-insurance's primary aim is usually to help their members in meeting the unpredictable burden of out of pocket expenses. They do not aspire to provide a comprehensive insurance cover, still less to pay income replacement benefits as are usual in commercial insurance policies. Perhaps a more apt description of the concept is voluntary group self-help schemes for social insurance."

The development of micro-insurance as another form of microfinance service is prompted by the fact that excluded populations which are primarily represented by the informal sector have not been covered under existing social insurance schemes despite the verbal and written declarations of formal schemes to cover the informal sector. For example, Almazan cited SSS statistics which shows that majority of the members of the state run SSS belong to the formal sector as represented by the regular employees as shown in Table 3. Commercial insurers on the other hand, generally shied away from the informal sector and the poor because of high transaction cost and low level profitability.

Table 3: Social Security Coverage,1999-2000

Type of Members	1999	2000
A. SSS	**21,316,172**	**22,621,038**
Employees	*18,438,707*	*18,935,128*
Regular	18,351,662	18,843,322
Househelpers	87,045	91,806
Self-Employed	*2,877,465*	*3,685,910*
Regular	823,323	889,232
Farmers/Fishers	275,966	327,454
Expanded Self-Employed	1,687,406	2,206,098
OFWs	88,432	260,483
Non-working spouse	*2,338*	*2,643*
B. GSIS	**1,481,219**	**1,606,617**

Source: SSS and GSIS as cited in MTPDP 2001-2004 as cited in Almazan (2003).

The rising importance of micro-insurance is further catalyzed by three major factors: 1) the growing interests of multilateral and bilateral aid agencies such as the ILO, WHO, WB and ADB in this intervention to the point that this concept is now considered as part of their respective mainstream social protection strategies; 2) the continuing product innovation of solidarity and self-help groups such as the NGOs, cooperative and mutualist movements; and 3) the solidarity-based social protection schemes which are more attuned culturally to the behavioral patterns of the informal sector.

Where is the scheme best suited?

In the same paper, Abad (2001) continued to describe the most likely setting where a micro-insurance program will thrive. From the vantage point of risks, he asserted that micro-insurance programs may respond well to "idiosyncratic events in view of their limited scope of operation area-wise and community based in nature. Co-variant risks may be detrimental to such schemes unless these are replicated in several areas extending beyond regional boundaries and federated at a higher level so that reinsurance or co-sharing of risks can be effected."

How is it different from Commercial Insurance?

Micro-insurance is differentiated from commercial insurance by way of the table below:

Table 4. Comparison and Contrast of Commercial Insurance from Micro-Insurance

	Commercial Insurance	Micro-Insurance
Target Group	Those who have the capacity to pay large sums of money as premium	Those who do not have the capacity to pay large sums as premium Those who are costly to serve due to socio-economic status, location and the like
Motive	Profit	Solidarity and Mutual Aid
Product/Services	Product menu is varied and complex aimed at individuals Highly restrictive	Product menu is limited and simple, aimed at the whole family of the member Limited or no restrictions
Delivery System	For profit corporations	Mutual Benefit Associations, cooperatives & other forms of mutual aid organization
Ownership	Proprietors or stockholders	Membership based
Decision Making	Proprietors or stockholders; number of voted depend on size of stocks	Democratic; regardless of share capital or size of contribution, it is still "one person-one vote"
Surplus	Return on investments and dividends	Return on share capital, patronage refund as in cooperative; and membership equity value for MBAs

The philosophy of commercial insurance is fundamentally different from that of the mutualist movement, whether it is in the area of solidarity, the profit motive or participation of the members or policyholders in the aspects of ownership, decision making process and management.

Solidarity is not an important feature of commercial insurance. In order to eliminate those persons considered as high risk in insurance terms, commercial insurers have instituted highly restrictive conditions for coverage as compared to the mutualist organizations—possibly involving medical examinations, exclusion of certain medical conditions, maximum amount of cover per individual and the like.

Furthermore, commercial insurers compute their premium according to individual risk of the person to be insured. This premium is therefore related to the physical and mental condition of the individual and not family-based.

This is not to say that Mutual Benefit Associations (MBAs) do not use these proven techniques of insurance management. They differ only in terms of the number and degree of restrictions and emphasis on the family or group solidarity.

The ownership, decision making and management of commercial insurance is the sole prerogative of the investors and stockholders. The clientele of the commercial insurers is all important in the context of business competition and profitability. However, the insured persons have absolutely no voice in how the company is run. At the most, a dissatisfied customer has the option of either canceling his contract or going to the courts.

Finally, commercial insurance must generate a return on the capital of the investors and stockholders and as such they are considered as profit oriented. Mutualist organizations like MBAs or cooperatives have profit sharing schemes such as patronage refunds for cooperatives and membership equity value for MBAs.

What is the difference between savings, loan and insurance?

As what we have said previously, the most common personal financial services accessed by the poor may come in the form of savings, lending and insurance.

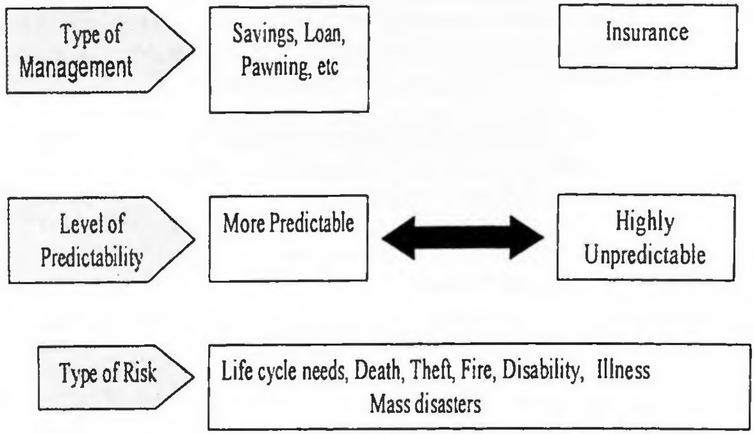

Figure 3: Risk Management Continuum

However, of the three, insurance is the least understood. Apart from having a low insurance consciousness, it is difficult for people, especially the poor to appreciate the importance of insurance in their lives. More often than not, insurance is confused with savings or loan programs. Hence, it was essential based on the experience of the writer to explain these differences and the relationship between these concepts.

Savings allow a person to accumulate funds first and take the resulting lump sum later. Loan on the other hand, allows a person to take lump sum first as an advance against future savings. But insurance allows a person to take lump sum at the time it is needed in exchange for a continuous stream of savings.

Savings and loan for example are generally used as a risk management mechanism for the more predictable risks normally associated with life cycle events. Insurance on the other hand, provides the poor with some flexibility in responding to unpredictable shocks such as illness, disability, death and disasters. It minimizes the diversion of hard earned savings or loans to emergency purposes other than what it was originally meant to respond to.

What is a Mutual Benefit Association?

Modern MBAs has its roots in the mutualists and cooperative movements that emerged because of the appalling human misery caused by the industrial revolution. Industrialization entailed a concentration of the population in cities with dire social consequences: the growth of slums and the exclusion of unproductive people such as the elderly, sick people and the victims of occupational accidents from the benefits of the broader society.

The antecedents of MBAs came into being because of the growing social awareness of individuals, groups and communities with regard to the insecurity of work and poor working conditions and its relations to the well being of people especially of the working class. MBAs, like cooperatives and trade unions, have always been considered as an institutional challenge against the excesses of capital particularly the profit logic of commercial insurers and the inadequacy of the State with regard to providing social welfare for all.

Mutual benefit associations may be defined as a non-profit organization, freely and democratically constituted by its members, functioning on the basis of social solidarity among all its members. By means of members' subscription fees or contributions and on the basis of their decisions, the MBA seeks to help the members and their families face certain risks in life by practicing providence, mutual aid and solidarity. Consequently, MBAs are also social movements just like the cooperative and trade union movement.

In the Philippines, MBAs is defined by the Insurance Code. Section 390 of the Code states that:

> *"Any society, association or corporation, without capital stocks, formed or organized not for profit but mainly for the purpose of paying sick benefits to members, or furnishing financial support to members while out of employment, or of paying to relatives of deceased members of fixed or any sum of money, irrespective of whether such aim or purpose is carried out by means of fixed dues or assessments collected regularly from the members, or of providing by the issuance of certificates of insurance, payments of its members of accident or life insurance benefits, out of such fixed and regular dues or assessments, but in no case shall include any society, association or corporation with such mutual benefit fea-*

tures and which shall be carried out purely from voluntary contributions collected not regularly and or no fixed amount from whomsoever may contribute, shall be known as a mutual benefit association."

What is the philosophy behind the MBA?

The concept of Mutual Self Help based on the principle of reciprocity and solidarity is the guiding philosophy of MBAs.

The principle of reciprocity states that there is a reciprocal obligation expected from the recipient of aid towards the giver, whereas solidarity is an expression of empathy with the more disadvantaged, without expectation of a direct reciprocal obligation from the part of the recipient. However, solidarity is not the same thing as charity because the former takes place within a complex social system of mutual rights and obligations where the recipient is considered to be entitled to assistance as a right, and the obligations on them may be indirect ones towards the whole community for instance, rather than towards the individuals who give.

What are the differences and similarities between MBAs and cooperatives?

The Philippine MBA Movement in Brief

MBAs and cooperatives are branches of the same tree. They had a common origin in most parts of the world. They evolved in the same manner and are propelled by the same values and possess almost similar features and form part of the social economy. However, the Philippine public is generally more familiar with cooperatives than with the MBAs perhaps because the cooperative movement has a longer history in the country and is more pervasive in the communities and workplaces.

Almazan (2003) reported that in the Philippines, there are around 64,000 cooperatives in 2002. In contrast, there are only around 16 MBAs in the country which includes the PMBA. However, most of these MBAs have been catering mostly to the formal employees both in the government and the private sector. The biggest MBA in the Philippines in terms of asset is the

Armed Forces & the Police Mutual Benefit Association, Inc. (AFPMBAI) with an asset of around 4 billion pesos in 2002 and caters exclusively to the personnel and families of the Philippine military and the police.

But based on the field observation of the writer, there may be hundreds of informal micro-insurance units and schemes being operated in the country today that may not be too large as to require the attention of the Insurance Commission. Two notable examples of these are the Novaliches Development Cooperative (NOVADECI) and the ILO-STEP supported ORT Health Plus Scheme. However, there are also entities that have operated various insurance schemes which started with good intentions but failed in the process due to professional and actuarial inadequacies.

Two of the MBAs are operating as cooperatives namely the Coop-Life Mutual Benefit Services Association (CLIMBS) and the Cooperative Insurance System of the Philippines (CISP). Both were born in the womb of the Philippine cooperative movement. Of the two, the CLIMBS is the more aggressive in terms of promoting its services among the cooperatives in the country. The CLIMBS has even created another insurance entity that is considered as a full blown mutual insurance company complying with the minimum requirements of the IC. It is called the Coop Life Assurance Society of the Philippines (CLASP).

Apart from these two MBAs, another MBA worth noting is the Center for Agriculture & Rural Development Mutual Benefit Association (CARD MBA). As a micro-insurance model, the CARD MBA is fast becoming popular in the Philippine MFI-NGO community. This is not only because it is considered successful in its micro-insurance endeavors but also because it was created by two highly related entities, the CARD NGO and the CARD Bank which have as their core business the promotion and implementation of micro-credit respectively. In other words, the larger MFI-NGO community can identify closely with the experience of the CARD MBA because it was set up successfully by a MFI. The CARD NGO-Bank-MBA experience operates under the principle of what they call "Mutually Reinforcing Institutions" (MRI) which actually means that there is strategic unity between the three entities because they are governed by almost the same board members and deal almost with the same clientele market. Second, it also means that each institution support each other in terms of resources both in terms of finance, facilities and personnel. The only difference is that they have taken it upon themselves to excel in their respective core business.

The NGO takes care of the micro-insurance training institute; the Bank takes care of the savings and loan operation while the MBA takes care of the micro-insurance operation.

Just recently, the CARD has taken another initiative of setting up another entity to assist all interested MFI-NGO who wish to enter the micro-insurance business through the setting up their own MBA. It also aimed to provide reinsurance to these upstart MBAs. This entity is called the Risk Management Solution, Inc. (RIMANSI) and is supported by the Canadian Cooperative Association (CCA). It aims to operate not only in the Philippines but also in Southeast Asia.

On the national level, the Philippine MBA community has only one apex organization called the Chamber of Mutual Benefit Associations, Inc. (CHAMBAI) where many of the licensed MBAs are affiliated with. The Insurance Commission deals with this apex organization when dealing with the MBAs as a movement or as a community.

A Comparison of MBAs and Cooperatives

The next table shows some of the differences and similarities between the MBAs and cooperatives.

Table 5. Comparison and Contrast between MBAs and Cooperatives

	MBA	Cooperative
Target Group	Offers it services to members and community at large	Offers it services to members and community at large
Motive	Solidarity & Mutual Fund Aid	Solidarity and Mutual Aid
Ownership	Members/policyholders	Members/shareholders
Decision Making	Democratic based on "one member-one vote" system regardless of cost of insurance policy cover	Democratic based on "one member-one vote" system regardless of cost of size of share capital
Membership	Open and voluntary, individuals	Open and voluntary, depending on level of cooperative, individual or organizational
Contributions	Regular contributions or premiums which are not refundable upon membership withdrawal except when claiming a benefit under its insurance coverage. A portion of the premium is immediately set aside upfront to form the Mutual Aid Fund whose purpose is to ensure prompt payments of benefit claims.	Share capital earning interest and are refundable upon membership withdrawal
Surplus	No dividends or patronage refund. However, a percentage is allocated to various reserve funds such as the mutual aid fund system and a member's account where the Membership Equity Value is accumulated.	A percentage of surpluses are allocated to dividend, patronage refund and various reserve funds such as membership education and the like.
Regulatory Body	In the Philippines, Securities & exchange Commission & the Insurance Commission	In the Philippines, Cooperative Development Authority. However, if the line of business of the cooperative is insurance, the insurance aspect of its operation is likewise regulated by the insurance Commission.

Just like the MBA, a **cooperative** is an association of persons who join together to carry on an economic activity of mutual benefit, in an egalitarian fashion.

A cooperative is a legal entity owned and democratically controlled by its members, with no passive shareholders. It thus combines the equal control characteristic of many partnerships with the legal personality conferred on corporations. Membership is open, meaning that anyone who satisfies certain non-discriminatory conditions may join. Depending on the level of the cooperative, the membership could either be individual or organizational. In general, most cooperatives are governed on a strict "one member, one vote" basis, to avoid the concentration of control in an elite. Economic benefits are distributed proportionally according to each member's level of economic interest in the cooperative, for instance by a dividend on sales or purchases. Cooperatives may be generally classified as credit, consumer, producer or service cooperatives, depending largely on their purpose.

The main difference between the cooperative and the MBA lies in the type of contribution and its disposition and where and how the surplus is allocated.

In the Philippine experience, the share capital is the principal form of contribution for cooperatives. In an MBA,there is no share capital except for the premium payments for insurance coverage where a portion of which is allocated upfront to a reserve fund called the **Mutual Aid Fund System (MAF)**. The MAF is a reserve fund for the sole payment of benefit claims of members or their beneficiaries.

In a cooperative,the surplus is allocated to the dividends, patronage refunds and various reserve funds such as education and training. In an MBA, dividends are not allowed because there is no share capital to talk about. The MBA's surpluses may likewise be allocated to various reserve funds just like in a cooperative. For instance, a percentage of the surplus are plowed back into the MAF and another percentage is allocated to the Members' Account containing the so-called Member's Equity Value (MEV). The MEV can only be withdrawn by the member after a minimum number of years of continuous membership.

In the Philippines, the MEV is akin to the patronage refund of the cooperative but actually represents 50 percent of the total membership premium the MBA agrees to pay to the member if he withdraws his membership and releases his claim from the MBA after at least three years of continuous membership. Obviously, the more premiums the member has paid and the longer he stays with the MBA, the bigger will be the MEV; but the MEV will always be 50 percent lesser in value than the total amount of premiums paid (Perez, 1999). The premiums referred to here is the contributions paid by the member for the basic benefit product approved by the Insurance Commission and not to all the insurance product of the MBA. The MEV arises from the fact that the fixed annual contributions or premiums is much in excess of the annual risk during the earlier years of the membership policy, an excess made necessary in order to balance the deficiency the same premium will meet for the annual risk during the later days of the same policy.

The reader can get an idea of how a real MBA works through the experience of the Pakisama Mutual Benefit Association as described by the writer below.

What is the PAKISAMA Mutual Benefit Association (PMBA)?

PAKISAMA Mutual Benefit Association, Inc. (PMBA) is a sister organization of the *Pambansang Kilusan ng mga Samahang Magsasaka* (PAKISAMA) - a national peasant confederation founded in 1986. The PMBA can lay claim to the fact that it was the first MBA organized by the organized peasantry in the Philippines as represented by the PAKISAMA. The PMBA serves as the micro-insurance service arm of the rural and urban poor groups and communities. The primary objective of the PAKISAMA Mutual Benefit Association is to provide affordable social protection benefits to the constituency of PAKISAMA and other people's organizations, cooperatives and NGOs, their beneficiaries and families upon the occurrence of covered contingencies.

Origins of the PMBA

PAKISAMA's experiences in extending concrete services to its members and understanding of the vulnerability of the poor facing various risks led them to introduce micro-insurance as part of its package of services.

The need for creating a micro-insurance program for its members started way back in 1998, when the leadership of the PAKISAMA was brainstorming about the need to create a new and financially sustainable program that can serve the needs of the rank and file members apart from the traditional services which it was offering then. These traditional services refer to the education and training program; sustainable agriculture extension; legal and policy advocacy; and gender awareness. These were all supported largely by outside funding without which these programs would not have been possible.

The challenges facing the leadership then was that there was a clamor among its affiliates for a program which can reach the rank and file because the traditional services has a limited reach which cannot possibly serve all the 80,000 members of the PAKISAMA at that time.

Upon consultation with the affiliates, the leadership decided that one of the most practical solutions was the creation of a micro-insurance program. Not only does it provide a "caring" program for its members, it will also be financially sustainable because the members were willing to pay for this kind of service. This finding was further bolstered by the findings of a mini-feasibility study commissioned by the PAKISAMA in 2001.

At the same time, knowing its limitation in managing an insurance program for its members, the PAKISAMA had a series of exchange visits with its counterpart in the Netherlands, which is the LTO—the national Dutch farmer's federation (www.lto.org) and its solidarity arm the Agriterra (www.agriterra.org). Through the assistance of the Agriterra and the LTO, the PAKISAMA was introduced to the Interpolis Re—(www.interpolis.com) an insurance company established by the Dutch farmer's movement 100 years ago. These three entities since then have been providing moral, technical, financial and reinsurance support to the PAKISAMA.

Two options were considered by the PAKISAMA to set-up a social protection program for its constituency. First, the most practical was to set-up a partnership-agent relationship with the government social protection agencies notably the Social Security System and the PhilHealth. Second, was to set up its own micro-insurance program under a separate entity.

The PAKISAMA however, decided to set-up its own program after the PhilHealth and the Social Security System did not entertain its proposal of establishing a joint cooperation between them and these institutions during the time of the Estrada administration. It seems both institutions were not yet prepared to enter into partnership programs with people's organizations or with civil society in general just as it did with the local government units (LGU). The proposal essentially was to facilitate the coverage of the PAKISAMA's rural poor constituency into the programs of these government institutions along the lines of their cooperation program with the LGUs for the poverty groups in their respective provinces or municipalities and at the same time serve as collecting agents for the membership contribution.

However, for purposes of legal requirements and operational efficiency it was decided by the peasant leadership to establish a separate legal entity to manage this program. Hence, the PMBA was established in August 17, 2002 during its 1st National Convention and has been registered since with the Securities and Exchange Commission (SEC) and duly licensed by the Insurance Commission (IC)as a mutual benefit association.

One of the IC senior representative commented that the PMBA was the first peasant organized MBA in the country and that its development was worth observing.

What are its mission and objectives?

The Vision and Mission of the PMBA essentially reflect the core principles of a standard MBA. It is focused on the enhancement of financial security of the informal sector particularly of the small farmers and rural workers through the provision of a "family-oriented, integrated, affordable and responsive mutual benefit services," under the principle of "One for All and All for One." The slogan of One for All and All for One is a manifestation of the principle of reciprocity and solidarity among the informal sector.

Flowing from these vision and mission statements, the PMBA's avowed objectives are as follows:

1) To provide financial security to policyholders, dependents and their beneficiaries upon the occurrence of covered contingencies;

2) To promote and advance the various interests of its members and their dependents and beneficiaries which will enhance their social and economic well-being;

3) To develop insurance and savings consciousness among its members through education and other forms cf information strategies; and

4) To recruit policyholders/members and establish or recruit chapters throughout the country.

Membership of the PMBA

The PMBA has two types of membership: regular and associate. The regular members are persons on whom membership is conferred. A member is responsible for premium contribution; he/she is the primary beneficiary of all benefits under the Kapamilya program (basic insurance program of the PMBA) and has the right over the member's account. Furthermore, he/she has the right to vote and be voted upon during meetings of the Mutual (used synanymously with PMBA). The regular member should be between 18-60 years old upon enrolment. However, membership can last up to 75 years old for as long as they regularly pay their premium contributions.

The associate members are persons considered as dependents of the regular members and are likewise considered fully insured persons under the terms and conditions of the Kapamilya. There are no limitations as to the number of associate members that may be included by the regular members provided they meet certain minimum qualifications before their inclusion in the master policy of the regular member.

To date, the Mutual has around 4,527 members spread in 38 people's organizations and three MFI-NGOs which serve as its institutional partners in 24 provinces nationwide.

Table 6: Types and Profile of Members

Type of Members	Numbers/Description
Enrolment of members	Voluntary
Membership dues:	Php5/month integrated w/ premium
Number of Regular Members:	4,527 Regular Members (18 to 75 years old)
Number of Secondary Beneficiaries	7,253 Beneficiaries
Number of Organizational Chapters/Partners	38 people's organizarions, cooperatives and 3 MFI-NGOs
Membership Profile:	
Sex	2,753 women and 1,744 men
Age	90% are 24-54 years old
Top 5 Occupation	1. Farmer/Rural Workers 2. Self-employed/ Micro-entrepreneurs 3. Housekeepers 4. Sales Workers (market & ambulant vendors) 5. Private Employees (NGO, cooperative workers)

Source: PMBA 2005

Based on Table 6, one can easily observe that 60 percent of the members of the PMBA are women and that 90 percent of them are between 24-54 years old. The data also shows that the top five occupation of its membership are the following: farmer/rural workers, self-employed/micro-entrepreneurs, housekeepers, sales workers consisting of market, ambulant vendors and sari-sari store workers, private employees consisting of employees of NGOs and cooperatives. The micro-entrepreneurs and housekeepers are usually the client borrowers of the partner micro-finance institutions (MFIs) of the PMBA.

A Description of the PMBA Micro-Insurance Schemes

The PMBA has developed two insurance products for the informal sector. The first one is the Kapamilya product aimed mainly at responding to the risks faced by an average Filipino family. The other is the Loan Protection Product aimed primarily at securing the loan exposure of the cooperatives and microfinance institutions (MFI).

The PMBA's micro-insurance program offers a multiple risk product called the *Kapamilya* (literally means "family member") aimed at protecting not only the policyholder-member but also his/her whole family. The Kapamilya is basically a life and accident term insurance which includes riders like hospitalization.

There is a required membership fee and enrolment of members is voluntary (both individuals and family). However, there is also eligibility condition for life insurance wherein those above the age of 60 and those with a history of chronic illness cannot apply. However, a member can continue his membership in the Mutual until the age of 75 provided they are enrolled in the Kapamilya program not older than 60 years old.

The PMBA has six (6) insurance packages under the *Kapamilya* addressing four (4) different household arrangements such as 1) household couple with no children; 2) one parent with own children (1-14 years old), 3) household couple with own children (1-14 years old); and 4) single persons. Premium for life and disability packages ranges between Php17 for single persons to Php239 per month for household couple with own children. The number of natural and adopted children that may be included as associate members or dependents is virtually unlimited.

Benefits provided depend on the package selected. For example, a premium of Php17/month provides insurance coverage of Php10,000 for accidental death; Php5,000 for natural death and Php10,000 for disability of member and registered family members in all three cases.

There are other benefits to these core benefits. First, there is the funeral assistance for members with ages 1-15 and 65-75 years old. Second, there is also the hospitalization benefit of Php35 –185 per day for a maximum of 15 days per family member enrolled in the program. To this day, this Kapamilya product has already benefited 107 people or families since 2003.

Another product of the PMBA is its loan protection program or group credit life insurance aimed at protecting both the member-borrower and his/her creditor. Its premium ranges from Php6.60 per thousand peso loan to a maximum of Php19.20 per thousand pesos, depending on the age of the member-borrower and loan amount.

Table 7: PMBA Micro-Insurance Products

Name of Scheme	Kapamilya Product	Loan Protection Product
Brief Description	A micro-insurance package mainly for the whole family (both regular and associate members)	A group credit life package meant to secure the loan exposure of Microfinance Institutions
Target group	Farmers/rural workers; fisher folk; micro-enterpreneurs; other informal sector (vendors, drivers, etc.) and their families and organizations.	Micro-finance institutions like cooperatives, NGOs, rural banks
Eligibility Requirements	• Must be a member/client of a PO/ NGO/Coop chapter or partner of the PMBA • 18-60 years old upon enrolment	• The MFI/Coop/PO must be a partner of the PMBA • Must be a borrower of good standing • Must be a member of the PMBA via enrolment in the Kapamilya
Term	Annual, renewable every year	Life cycle of the loan
Risk coverage	Life; Accidents; Hospitalization	Loan protection bundled with Kapamilya Life & Accident product
Premium Range	Depending on the plan and household arrangement, Php 17/month (for single persons) to Php 239/month (for household couple with children)	Depending on loan term and age of borrower, Php 6.60 per Php 1,000 (for diminishing loan balance/ 18-45 years old) to Php 19.20 per 1,000 (for constant loan balance/46-60 years old)
Benefit Range	Depending on the plan and covered event, a minimum of Php 5,000-60,000. Other benefits include funeral assistance and hospitalization assistance of Php 35-185 per day for a maximum of 15 days each for both the regular and associate members.	*For the borrower's family/beneficiaries:* The same as Kapamilya benefits depending on plan *For the MFI:* Prompt payment of outstanding loan balance and principal up to a maximum of Php 60,000
Area coverage	Nationwide; both rural and urban	Nationwide; both rural and urban
Outreach	24 provinces	24 provinces

Management of the PMBA and its Schemes

1) Governance and Administration

National Convention: Highest Policy Making Body

The highest policy making body of the PMBA is the National Convention which meets annually. This body is essentially the general assembly of the Mutual where all members/policyholders in good standing gather as a collegial body to discuss the strategic issues facing the Mutual. This is also the time when the PMBA elects the members of its governing board— the Board of Trustees (BOT).

The convention is used as an opportunity to recognize all Kadamays, affiliates and partners who have done an excellent job of promoting the program among their constituency and in collecting the premium payables of the members.

Board of Trustees

In between the meeting of the annual convention, the Mutual is governed by a 9-member Board of Trustees led by the President. The BOT members, as a collegial body, elect from among themselves the officers of the PMBA, namely, the President, Vice-President, Secretary and Treasurer. The President is also the Chief Executive Officer of the Mutual. The General Manager and the current President of the PAKISAMA sits on the Board on an ex-oficio status. The President of the PAKISAMA is given an automatic seat in the board as recognition of the PAKISAMA's initiative to set up the PMBA. However, the manager is not given the right to vote. The BOT meets on a quarterly basis.

Administration

The day to day administration of the Mutual is vested on the secretariat composed of five full time staff and led by the General Manager. The other members of the secretariat are the Claims & Marketing Support Specialists, Finance & Administrative Officer, Bookkeeper/Administrative Assistant and the General Utility Clerk.

Pool of Advisors

The BOT members and the Secretariat are very open about their limitations with regard the proper way of running an insurance program. Hence, the Board and the Secretariat is supported technically by a group of advisors composed of an advisor from the Interpolis Re, a local actuarial consultant who is a member of the Philippine Actuarial Society and an external auditor. The first two consultants are also responsible for assisting the Secretariat and the BOT to come up with market-responsive but actuarially sound micro-insurance products.

2) Promotional & Educational Work

The Mutual manages to promote its micro-insurance services through its network of organizational partners such as community associations, cooperatives and NGOs who in turn organize a network of field workers called *Kadamays* (literally means "to sympathize"). The role of the Kadamays is four-fold: insurance promotion and education; pre-processing of membership application; pre-processing of claims application and the collection of premium payables from the individual members.

These Kadamays are trained and supervised by an Area Insurance Coordinators (AICs) who are also members of the affiliates and partners of the PMBA.

At present, the PMBA has around 357 Kadamays. These Kadamays are trained by the AICs and are supported by the PMBA by way of advance training in insurance and the provision of manuals, pamphlets, notices and necessary administrative and financial forms. A website for the PMBA has also been developed and updated as an additional source of information about the activities of the PMBA that can be accessed not only by the Kadamays but by its members and other stakeholders as well. The website's address is www.pksmutual.org.

The Kadamays and the AICs are not employees of the PMBA but rather field representatives whose efforts are paid on a commission basis for actual cash brought in (CBI) and not based on the annual face value of the policy.

However, partner MFIs and cooperatives that are accessing the Loan Protection Program (LPP) of the PMBA are not required to organize a core of Kadamay simply because they do not need it for purposes of enrolling their borrowers in the program.

The Kadamays and the MFIs are central to the strategy of the PMBA to promote its micro-insurance program among the informal sector workers.

3) Claims Processing

Claims processing is 40 days maximum based on the written contract between the member and the PMBA. However, the PMBA is verbally promising a 5 working day processing time for all claims provided it meets all the minimum requirements for the application and that the counting of the five working days commence on the time the application is received at the head office. So far, most of the applications were processed in five working days.

The delays in the processing are generally caused by improperly prepared application or inadequate supporting documentation. Depending on the amount of the claims, documentation is not too strict. The PMBA generally approves most claims in the spirit of solidarity with the members. However, there are numerous cases where claims have been disapproved. Some of the major causes of these are that the claimant is not the declared beneficiary or that the claimant has not paid his premium regularly based on the membership policy. Nonetheless, an eligible claimant with a lapse policy can still get some assistance from the PMBA, computed on a pro-rated basis based on the number of premium paid by the member.

A Claims Committee (CC) under the BOT is the one that approves or disapproves all fully processed claims application. Depending on the amount of claim, the CC has delegated its power of approval to the President, the Manager and at least one board member living near Metro Manila who are all members of the CC. Any amount bigger than Php5,000 should be submitted to the CC en banc for proper approval.

For the past three years, the PMBA has received 108 claims applications and total benefit value of Php48,615. Almost 80%f these claims are for hospitalization assistance.

4) Financial Management

Capitalization

Unlike its cousins in the cooperative movement which can start with a beginning capital sourced from the share capital of the members, an MBA like the PMBA does not have a source by which to start off a micro-insurance program. That is why the initial capital requirements of the PMBA was provided by Agriterra with the understanding that this subsidy will be gradually reduced as the PMBA reaches its "break-even" point of around 8,000 policy-holders. Hopefully this will be reached by 2007.

In the meantime, the PMBA saves all its earnings from the premium and other fees and allows it to grow until such time that it can be used when the support of Agriterra is withdrawn completely in the near future.

Investments of Reserve

In general, the PMBA follows the regulatory requirement of the Insurance Commission (IC) in terms of investing its reserve. The IC requires all MBAs to invest their reserves particularly the Mutual Aid Fund in low risk government treasury bills. The IC is so strict that they even require the PMBA to purchase these bills direct from the Bureau of Treasury of the Philippine Govemment.

Reinsurance

The constitution and by-laws of the PMBA requires the organization to acquire a reinsurance policy to further guarantee that the PMBA will be able to pay its obligations to its members in times of need, especially of the covariate kind. In this regard, a unique reinsurance agreement was established with Interpolis. In a booklet written by G. Pierik (2003), he discussed the reinsurance model which is being implemented currently in the PMBA.

Many Mutuals in the Philippines would have difficulty starting up without financial support. There is no starting capital and certainly during the first few years of its existence, the Mutual will not have built up adequate reserves. Even in later years, after the Mutual has started to pay its own way, a calamity may occur for which the Mutual's funds are insufficient. That is why Interpolis, working together with the Agriterra, has developed a combined financing and reinsurance model for the PMBA along the following lines.

It has been mutually agreed that during the initial years, calculations will be based on a fixed percentage for costs of 35% of the premiums and a commission for the Kadamays of 15%. During the first three years the costs will certainly be higher than the agreed 35%.

This cost is financed by the Agriterra, so that the PMBA has sufficient resources for any benefit payments it may have to make. At the same time, the Interpolis Re has supplied a reinsurance cover for the PMBA with a quota share of 100%. In other words, all amounts that must be paid out by the Mutual for death and disability are fully compensated by reinsurance up to a set maximum per event per year. The PMBA pays 20% of the premium income per year to Interpolis Re for this reinsurance.

If the total claims incurred in a given year are less than this 20 percent, the difference is paid back to the PMBA. Interpolis Re deducts only 5% percent of the reinsurance premium for administration costs. This special facility means that theoretically a mutual can show a profit immediately after being set up and can use this to build up an additional general reserves which can be used by the PMBA when the Agriterra eventually withdraws it support.

5) Management Information System

Oase: The Backbone of the MIS of the PMBA

Central to the effective and efficient management of a micro-insurance program is the deployment of an adequate computer hardware and software. In the case of the PMBA, the Interpolis facilitated the installation of licensed insurance administration software called the Oase. The Oase was developed by a Dutch InformationTechnology company called the Ad Arma (www.adarma.nl) initially for Dutch Mutuals but was later modified and enhanced to come up with an international version which is now being pilot tested in a Sri Lankan MBA and in the PMBA.

Without this software, it would not be possible for the PMBA to work with a small Secretariat given the number of information that needs to be processed for the effective administration of the micro-insurance business of the PMBA. The financial support for the acquisition of this software was provided by the Agriterra.

OASE is a modularized Insurance Administration program designed for small as well as for large mutual companies. It is a full Windows based program running on an Oracle 8 database and can operate in a stand-alone situation or in a (Windows) network environment with several PC clients. The OASE is relatively simple, easy to learn and the Ad Arma together with the Interpolis Advisor can provide remote support anywhere in the world through the Internet or by dial-up connection.

The OASE Modules

- Commercial Administration: This module administers the details about the member/policyholder and other demographic data.

- Policy Administration: This module administers and print insurance policies, invoices and dockets of invoices of the member/ policyholders.

- Debtor Administration: This module administers debtor account bookings in the Oase. The debtor here actually refers to the agents or Kadamays and prints monthly reports and summaries regarding the performance of the agents and their collection responsibilities.

- Member Administration: This module administers the Member Accounts as described previously in the earlier section of this paper. It calculates and disburses the MEVs and bonus payments owed by the PMBA to its members.

- Claims Administration: This module administers the claims and keeps track of claims and damages paid by the PMBA.

- Reinsurance Administration: This module prints the monthly reports and analysis for reinsurance companies such as the Interpolis who provides the reinsurance for the PMBA.

- Financial Administration: This is the accounting module of the Oase. It administers the general ledger, balance sheets, income statements and other financial data.

- System Management: The Oase has a system option for the maintenance of users, layout settings, default codes for agents, branches, etc. There are also options to create and import backups and install program-updates coming from Ad Arma.

Some Major Challenges and New Strategy for the Future

There are a number of challenges being faced by the PMBA in its operations. These are problems related to scheme management such as difficulty in reaching its target populations not only because of the high cost of mobility but also because of inadequate full time marketing & education personnel to really reach out to these population and their organizations as well as how to balance this with the need to maintain a low overhead cost for the Mutual.

Furthermore, even if these target populations are reached or covered, there is difficulty in explaining the concept and relevance of micro-insurances in their lives because of the lack of general awareness of the people about these type of services. They simply cannot understand why they have to pay for an unforeseen event which is beyond their control.

Corollary to this, the PMBA is likewise feeling the "competition" from fellow MBAs and cooperatives in terms of offering their services to the target populations. From the observation of the writer, some of the more successful MBAs in the country are those MBAs with "captured markets" such as the AFPMBAI and the CARD MBA in so far as its clientele is provided automatically by its sister organization the CARD Bank. These MBAs do not have to face the difficult prospect of promoting their services because of the presence of a "captured market." The PMBA on the other hand does not possess its own "captured market" despite being the sister organization of the PAKISAMA. The PAKISAMA is not in a position to impose the product on its mass membership. The most it could do is to assist in educating its members on the value of insurance in their daily lives and in serving as the Kadamay or AICs of the PMBA in their respective areas of operation.

While the PMBA has around 357 Kadamays, not all these field representatives are performing as expected based on pre-established performance standards. On the average, only around 20%of these people are bringing in all the necessary membership enrollees for the past three years of its existence. The lackluster performance of many of the Kadamays has been attributed by the PMBA President to the inability of many of its AICs to exercise adequate supervision over their Kadamays and the "smallness" of the commission earnings which is a result of the fact that since it is a micro-insurance, its premium is generally micro with equally micro commission for the field worker.

On the administrative side, the PMBA is experiencing a declining rate in premium collection especially for those members who are paying on an installment basis. Even those partner organizations who have correctly integrated the insurance products into the lending programs like what the other MBAs are doing, failed to appreciate the fact that if they tie the premium payments with the payment mode for the loans of their members, any lapse in loan amortization would likewise lead to lapses in premium payments of the borrower-member.

Consequently, because of the declining premium collection rate, there is also the related issue of increasing expulsion of delinquent members who have not paid their premium payables for at least 12 consecutive months. Under existing rules, a member who has not paid his premium or contributions for at least 12 straight months will be expelled from the Mutual. If this continues, it will substantially affect its "business" projection of reaching its break even point or the necessary critical mass of members by 2007 to make the Mutual financially viable.

Nevertheless, the PMBA aims at a comprehensive prospect for future. The PMBA President in his Report to the 4th National Convention mentioned the necessity of adopting a new two-pronged strategy of addressing these problems.

According to Castillo (2005), the PMBA will continue maintaining the Kadamay system in promoting micro-insurance and in collecting premiums for all existing policies. However, the role of the AICs in field leadership will have to be strengthened. This means more training and perhaps more incentive schemes for them to act with more professionalism and dispatch in monitoring and motivating their respective Kadamays.

The second part of the new strategy is to focus the efforts of the PMBA in establishing strategic partnerships with institutions such as NGOs, cooperatives and rural or thrift banks with micro-credit activities via its new product—the loan protection program bundled together with our Kapamilya package.

The obvious advantages of this strategy are as follows: first, it will help maintain the core number of membership of the Mutual necessary for its viability. Second, it will help motivate the Kadamays to better perform their roles as expected. Third, it will increase and maintain a positive collection rate for premiums because all institutional partners will be asked to guarantee the full annual premium of each borrower enrolled under the loan protection program.

Conclusions and Key lessons: What Have We Learned?

1. *Existing social protection mechanisms, especially micro-insurance schemes have a significant role to play in advancing human welfare especially of the informal sector and of the poor.*

   Based on the historical and worldwide experiences, especially of the struggles of working people and the poor, it has been proven that social protection has played a major role in advancing human welfare. Consequently, the role of social protection has been repeatedly recognized as an indispensable tool for sustaining a minimum standard of living and of guaranteeing protection against a worsening of the living conditions of all citizens. In the World Summit for Social Development in Copenhagen in 1995, it was emphasized that establishment of social protection programs is an essential component of widespread social development and the fight against poverty.

   Existing social protection mechanisms therefore, must be supported and strengthened not only by the government but by all concerned parties who have a stake in the development of the country. This includes supporting all forms of alternative social protection schemes like the age-old, traditional practices of paluwagan and the like. However, the emerging area-based schemes and micro-insurances should be looked into more seriously by development practitioners as a program providing more viable social protection coverage for the informal sector and the poor given their unique characteristic of combining the grassroots flavor of the traditional practices and systematic management of insurance programs based on best practices.

2. *The informal sector and the poor are likewise capable of helping themselves through the various alternative means of social protection schemes.*

   Contrary to common knowledge, the informal sector and the poor are capable of initiating self-help initiatives as shown by various initiatives worldwide. The Philippines itself is witness to the successes of the people's solidarity movements such as the community based initiatives as demonstrated by the informal ORT Plus Schemes, the sector based initiatives such as the cooperative services, trade union initiatives, NGOs and MBAs such the CLIMBS, CISP, CARD MBA and the PMBA.

   However, as mentioned in Lesson No. 2, there is a need to actively support these initiatives for it to succeed. While social protection can be initiated by the people to help themselves, there is need to assist these groups either in a technical way or in a financial way until they become self-sustaining.

3. *Mutual Benefit Associations is the archetypal form of community based insurance based on worldwide experiences. However in the Philippines, the MBA as a form of insurance delivery system for ordinary citizens and the informal sector is not well known nor fully understood as compared to other mutual aid organizations such as cooperatives or its counterpart in the commercial sector.*

   As hypothesized by the writer, MBAs are not well known and are not fully understood as a viable form of delivery system for insurance services. MBAs have a more recent history in the Philippines as compared to the local cooperative movement which first appeared as early as the 1900s. The first MBA in the country is the Acacia Mutual Society which was established in 1940s by the local masons preceded even the establishment of the Insurance Commission. Insurance which is the core business of all MBAs is not well understood and not well appreciated by ordinary Filipinos compared to their counterparts in developed countries.

Consequently, both the Mutuals and its main product have not spread out and penetrated the four comers of the country unlike for example the cooperatives which are carrying the most common and popular services such as credit, production and marketing.

The writer believes that these challenges can be overcome if the apex organization of the MBAs—the Chamber of MBAs, Inc. (CHAMBAI) and those MBAs with particular focus on the informal sector such as the PMBA, the CARD MBA, CLIMBS and the CISP should take the lead in projecting more the contribution of the MBAs in extending social protection to the Filipino people particularly those in informal sector and the poor.

As part of the broader social movement for development, both the MBAs and cooperatives should establish more formal contacts and coordination to move forward a common agenda. Maybe with more frequent contacts and coordination between the two branches of the same mutual aid movement, both the MBAs and the cooperatives might be able to strengthen each other in the process. For starters, both could make social protection as one of their common agenda considering that in this era of budget deficits, the State usually targets these programs as the first to be reduced or removed completely. After all, social protection is a public good that should be guaranteed by the State.

4. *Ensuring the success of Micro-insurances requires that the delivery system must possess the following cornerstone features: the appropriate legal personality; a responsive and balanced range of insurance products; an efficient administrative organization, systems and procedures; and an adequate reinsurance.*

Appropriate legal personality

The appropriate legal personality refers to the kind of legal structure required to make a micro-insurance program an ongoing concern, this includes answering the question of whether or not to acquire a license for the program itself.

The principles underlying the determination of the appropriate legal personality for managing a micro-insurance program should be consistent with the fundamental principles, basis and values of mutualism. The structure and organs must enhance democracy, participation and solidarity as well as accountability and the autonomy and freedom of action of the group intending to run a program. In this regard, two of the most appropriate legal personality for an insurance program is either MBAs or cooperatives.

Having a legal personality such as an MBA personality provides it with the added advantage of having the right to transact business with its targeted population and other organizational entities, including the right to sue and be sued which is not normally available to informal mutual aid groups.

The licensing angle of running a micro-insurance is based on the fact that MBAs and other mutùal aid organizations are imbued with public interests for the simple reason that insurances are collecting hard earned money from its members, especially if these members are coming from the ranks of the poor and informal sectors. It is the obligation of the State to protect both the interests of the policyholders/ members and the insurers to make sure that fraudulent transactions and misleading sales or promotional practices are prevented or minimized, or else could lead to the financial collapse of the insurance program. However, insurance regulatory laws such as that in the Philippines may unintentionally restrict the development of insurance services for the poor and the informal sector because of the relatively strict requirements of the IC. The Insurance Code of the Philippines which was made into a law in the late 70's is typically designed for insurances meant for the middle and upper social classes. On the whole however, acquiring licensing from the Insurance Commission enhances the transparency and fiscal discipline of MBAs and cooperatives engaged in insurance initiatives. Consequently, it also enhances the credibility and trust ratings of the concerned MBAs. This has been the experience of the PMBA since it was founded three years ago.

A Responsive and Balanced Range of Products

During the mini-feasibility study commissioned by the PAKISAMA for setting up a micro-insurance program, one of the more popular demands from the constituency of the federation was a health insurance program. However, the researchers and the advisors from the

Interpolis Re advised against implementing it as the initial product of the PMBA because of the complexity of the program and the lack of experience on the part of the PMBA in managing such a complex product.

According to Brown and Churchill (2000), the provision of health insurance is more risky and more complex than either life or property for two reasons. First, the causes of health risks are much more varied and require more detailed information to identify and classify the relative risk-level associated with a potential policyholder. Second, there is a greater risk of unexpected increases in claims due to adverse selection and moral hazards and potential claims abuses by both the policyholder and the health care provider. Added to this, since the providers are independent clinics and hospitals, the PMBA will not be in a position to ensure the quality of delivery of health services of these providers. A single incident of poor quality health service could potentially discredit the whole PMBA simply by word of mouth from among the poor and the informal workers.

This is the reason why the PMBA chose to start with an insurance product called the Kapamilya that has the following features: a) it is relatively simple to understand; b) it is family oriented in the sense that the product aims, as much as possible, to cover the members of the whole household; c) it is a multi-risk product with life and accident as its core features with added riders like hospitalization and funeral assistance; d) it is renewable annually; providing the members the flexibility to change his/her Kapamilya package from one plan to another depending on his/her capacity to pay; and e) it is relatively affordable, using as its base the average income of the peasant constituency of the PAKISAMA.

Recently, the PMBA has launched its Loan Protection Program primarily aimed at protecting not only the partner MFI and cooperatives but also the family of the borrowers. In a normal loan protection or credit life insurance, the only entity protected is the institution and not the members.

Efficient Administrative Organization, Systems and Procedures

Worldwide experiences in running micro-insurances shows that a tight, well ordered but simple administrative structure, systems and procedures are required to ensure the delivery of the product and its benefits to the needy members, including the collection of premiums in the shortest possible time at the least cost. However, since most if not all micro-insurances are initiated by grassroots or solidarity groups, it is not surprising that most of them lack the necessary knowledge, skills and experience to run a successful program. Based on the experiences of the PMBA, it is essential that the following ingredients are present in the operation of a successful micro-insurance program:

a) External advisory inputs from professionals are a must especially in the field of insurance business, actuarial and financial management and insurance law considering the complexity of an insurance program;

b) Harnessing the power of information and communication technology (ICT) for the purpose of lowering transaction cost and enhancing decision making based on timely and comprehensive data; and

c) Continuing insurance awareness building among the old and new members as well as continuing education and training for the staff and management of the PMBA coupled with close mentoring on the part of the external advisors.

Without these ingredients, the BOT and management of the PMBA would not have detected this early all the challenges identified by the President in his report to the 4th National Convention.

Adequate and Solidarity Based Reinsurance

Based on the inputs of PMBA's local and foreign advisors, it is clear that reinsurance is critical and necessary source of protection against unexpected increases in claims due perhaps to covariate events such as calamities. Without reinsurance, MBAs and other mutual aid groups are highly exposed to sudden increases in claims unless they have sufficient reserves to cover a mass disaster event.

While the PMBA has not experienced any covariate event in its three-year experience to require any massive financial assistance from the Interpolis as its reinsurer, its members and leadership need to experience a mass disaster for it to appreciate the necessity of reinsurance. Worldwide experiences of mainstream insurers would show that it pays to be reinsured in the light of recent covariate events like the 9-11 Event in New York and the widespread Asian Tsunami.

Reinsurance becomes more important for MBAs and microinsurers in the Philippines because of the fact that it is a disaster prone country. In fact, the PMBA, nearly experienced a mass disaster event during the 2004 landslide and flooding event in northern Quezon and Aurora. There were many PMBA members in these areas. Fortunately or unfortunately, none of the members died nor injured in the said event simply because most of the members were in Polillio Island and not in the mainland Real or Infanta towns. Otherwise, the PMBA would have run to its reinsurer for assistance because its current reserves would not be enough to cover any mass disaster event of that magnitude.

Finally, it is highly advisable, that any reinsurer that will be tapped by MBAs or microinsurers should be able to understand the unique thrust of MBAs as having a social mission and consequently should be able to extend a reinsurance package that is also based on the values of solidarity as demonstrated by the reinsurance relationship between the Interpolis and the PMBA.

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