

# Agriculture Microinsurance Framework



## A. Government Policy on Agriculture

Rural and agricultural development has been in the forefront of the government's poverty alleviation initiatives.

Under the 2011-2016 Philippine Development Plan, Government envisions "a competitive, sustainable and technology-based agriculture and fisheries sector, driven by productive and progressive farmers and fisherfolk, supported by efficient value chains... contributing to inclusive growth and poverty reduction."

The PDP's goal is "through prudent use of resources, the agriculture and fisheries sector shall have attained the following: (a) improved food security and increased rural incomes; **(b) increased sector resilience to climate change risks**; and (c) enhanced policy environment and governance."

The PDP cited as one its major strategies the strengthening of **"the agriculture and fisheries insurance system as an important risk sharing mechanism:**

- a. **Improve risk-reducing mechanisms** (i.e., guarantee, **insurance**) to encourage more banks and other lending conduits such as

cooperatives and NGOs to lend to agriculture and fisheries; and

- b. **Introduce innovative risk-transfer mechanisms such as weather-based/ index insurance systems."**

To help attain the objectives under the PDP, **"the private sector will be tapped to participate in government's efforts in delivering immediately the needed infrastructure and services in the agricultural and fisheries sectors."**

## B. Current situation

Majority of Filipinos in the low-income and informal sectors reside primarily in the rural areas. They are primarily dependent on agriculture-based activities for their income and livelihood. In fact, coconut farmers and fisherfolk remain the poorest in the country.

It is estimated that 40.6% of total Philippines land area is devoted to agriculture and that 51% of total population lives in rural areas while 30.9% of the labor force are dependent on agriculture.

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As clearly stated in the PDP, “the resiliency of the country’s agriculture sector is threatened by climate change and extreme weather events. Damage to rural infrastructure and losses to crops, livestock and fishing grounds... are a few emerging problems that should be dealt expeditiously.”

Compared to other sectors of the economy, agriculture remains very vulnerable to climate change particularly to the increasing frequency and intensity of typhoons.

For the years 2012 to 2014, the agriculture sector suffered huge losses - PhP 26.53 billion in 2012 caused by Typhoon Pablo; PhP 20.26 billion in 2013 due to Typhoon Yolanda; and PhP 6.34 billion in 2014 because of Typhoon Glenda. [Source: NDRRMC Reports, 2012-2014].

However, the experience of typhoon Haiyan (Yolanda) in 2013 demonstrated that microinsurance can be an effective means in providing relief to over 120,000 affected families.<sup>1</sup>

Philippine Crop Insurance Corporation’s (PCIC) penetration rate in 2012 is at 4% or 311,388 Small Farmers and Fisherfolks (SFF) and in 2013, 8% or 732,654 SFFs.

Thus, there is urgent need to encourage public-private sector partnership in promoting the delivery of a broader and deeper microinsurance coverage to majority of those in the agriculture sector that do not have any risk protection coverage at all.

### **C. Vision: Relevant, Responsive and Affordable Microinsurance**

The vision is to promote and encourage the provision of agriculture microinsurance products and services

(MicroAgri) that are simple, affordable and accessible to the vast majority of the population dependent on agriculture through efficient and effective partnership arrangements between the public and private sectors.

### **D. Objectives of the Framework**

The MicroAgri framework shall provide a policy and regulatory environment that will:

- a. Provide clear-cut policy on MicroAgri to encourage the Government and private sector microinsurance providers to innovate and design products tailor-fitted to the needs of agricultural clients; and
- b. Clarify and delineate the roles and functions of the Government and microinsurance providers, regular agents, general agents, brokers, and other stakeholders in the delivery of MicroAgri.

### **E. Strategies to be pursued**

To ensure that the vision and objectives of the enhanced framework are realized, the following major strategies are undertaken:

- a. Development of clear policies that will guide the development and design of MicroAgri in particular parametric-based products;
- b. Formulation of guidelines on MicroAgri to encourage microinsurance providers to make available new and better products; and
- c. Ensure that clients are well informed of the product and their rights and privileges.

<sup>1</sup> Reference to the GIZ-MiN Yolanda study report



## F. Scope of the Framework

This Framework addresses the provision of MicroAgri designed to cover the risk protection needs of all stakeholders in the agriculture value chain.

Agriculture refers to the:

- a. Cultivating the soil, planting of basic and high value crops, raising of livestock and poultry, including the harvesting and marketing of such farm products, and other farm activities and practices;
- b. Catching, producing, growing, harvesting, processing, marketing, developing, conserving, and managing of all aquatic resources and fisheries areas;
- c. Establishing, managing, and harvesting of commercial trees such as teak, falcata, and rubber and their derivative products; and
- d. Processing, marketing and distributing raw, semi-processed or finished agricultural, fishery, and forestry products.

## G. MicroAgri Coverage

MicroAgri shall refer to both standard indemnity-based and parametric-based microinsurance which may be used to insure all assets and economic activities related to the agriculture, forestry, fisheries, and agro-processing sectors in the Philippines.

- a. Standard indemnity-based microinsurance shall refer to microinsurance products that indemnify the insured for all or a portion of actual covered losses incurred when one or more pre-defined events occur within the term specified in the policy contract.

- b. Parametric-based microinsurance or index-based microinsurance shall refer to microinsurance products that indemnify the insured when one or more pre-defined parameters/indices have been breached (triggers or thresholds) within the term specified in the policy contracts. Instead of indemnification based on actual loss measurement, the benefit amounts are determined by one or more parametric formulae or indices which yield proxy estimates that are correlated to the actual losses.

MicroAgri may be used to insure inputs, crops/products in their various stages of development, and all types of assets directly related to production, storage, marketing and processing such as rice mills, fish pens, poultry facilities, poultry, animals, machineries, fishing boats, and all types of equipment;

MicroAgri may be designed to protect against perils that can affect all the stages in the value chain, ranging from the pre-production to the final stages such as marketing of finished products.

MicroAgri products and services must conform to the 2010 Regulatory Framework for Microinsurance, the 2015 Enhanced Microinsurance Regulatory Framework, and various microinsurance rules and regulations.

MicroAgri may be purchased by producers, workers employed in the agriculture sector as well as their families, investors, input suppliers, processors, exporters, and all others involved in value chains related to the agriculture.

Events that may be insured include occurrences of drought, frost, hailstorms, typhoons, floods, excess rain, extreme heat, tsunamis, storm surges, earthquakes, volcanic eruptions, landslides, pests and diseases, fires, lightning, tornadoes, sinkholes, and



such other contingent events that may be identified by the Insurance Commission.

In addition, MicroAgri may cover business interruption of various players in the value chain.

## H. MicroAgri Provision and Distribution

Life features of MicroAgri may be provided by duly licensed life insurance companies, mutual benefit associations, and cooperative life insurers while non-life features may be provided by duly licensed non-life insurance companies.

Accident, health and disability features of MicroAgri may be provided by both life and non-life entities.

MicroAgri may be designed and developed by brokers in behalf of their clients while Microinsurance general agents may assist microinsurance entities in the design of the product.

MicroAgri may be bundled with any other microinsurance product under the regulation of IC.

MicroAgri may be sold through any of the delivery mechanisms as may be allowed by IC.

## I. Insurable Interest

Microinsurance providers are required to clearly communicate that only customers with identifiable insurable interest are eligible to purchase MicroAgri products.

The MicroAgri provider may or may not require documentary proof of insurable interest in order to purchase MicroAgri products and services.

The insured needs to provide the information necessary to complete the enrolment forms even without documentary evidence.

Notwithstanding the foregoing, however, the insured in case of individual insurance or the group policy holder in the case of group insurance, shall certify eligibility to avail of the MicroAgri product.

Documentary evidence of insurable interest must, however, be demonstrated in case of a claim. Acceptable documents for evidence of insurable interest may be one or a combination of the following:

- a. Barangay certification
- b. Affidavit of two disinterested persons
- c. Certification or receipts from input suppliers
- d. Certification from local elders in the case of indigenous people
- e. Certification of local religious leaders
- f. Certification from one of the following: Department of Agriculture, Department of Agrarian Reform, Department of Environment and Natural Resources, Department of Interior and Local Government
- g. Other substitute documents acceptable to the microinsurance provider

Aside from demonstrating insurance interest, claims requirements must be kept simple and follow the provisions of the Microinsurance Regulatory Framework and the pertinent Microinsurance rules and regulations of the IC.

## J. Parametric-Based MicroAgri

The parameters/indices that may be used in constructing proxy loss formulae in parametric-based MicroAgri include:

- a. Wind speed (kph),
- b. Temperature (degrees Celcius),
- c. Relative humidity (percentage),



- d. Water levels, rainfall (amount of, in mm); and
- e. Other similar indices that may be permitted by the Insurance Commission.

The area-based yield / average-based yield measurements and methodologies (crop-cutting, remote imagery and others) may also be applied for determining payout values.

For determination of triggers and payouts:

- a. The certified data for the trigger should come from an independent reliable entity preferably duly recognized by the government.
- b. The primary source of data shall be clearly stated in the contract including the duration of the cover.
- c. The policy contract should have a fallback mechanism to determine the trigger in case a primary source of data is not available.
- d. The MicroAgri provider shall periodically post the most recent parametric information in their website in a manner that is simple and understandable to the clients. Data source must be properly cited for easy verification by the clients.
- e. Filing of the claim shall be within a period of one (1) year from the date of the certification of the data or expiry of the contract, whichever is later.
- f. The trigger must be clearly defined and claims shall be payable within ten (10) working days upon submission of complete documents.
- g. Upon declaration of a breach of trigger of the parameters covered, the insurer should immediately process and release the computed payouts to the insured. No proof of loss or documents may be required from the insured to prove breach of index trigger, unless the provider denies the claim.

## **K. Regulatory Relief Measures in Case of Natural Catastrophes and Disasters**

The Insurance Commission shall take into consideration the adoption of regulatory reliefs subject to certain conditions for affected Microinsurance providers whose clients or insured were affected by the catastrophic event.

In case of catastrophic event, the claims shall be payable within 20 working days upon submission of complete requirements.

## **L. Public-Private Sector Collaboration**

Philippine Coop Insurance Corporation to:

- a. Assist in product development;
- b. Engage in tie-ups and product bundling;
- c. Provide training for MI providers and financial education for clients;
- d. Act as aggregator of risks and/or as reinsurer, whenever possible.

Climate Change Commission to recommend legislation, policies, strategies and programs for MicroAgri and other risk sharing mechanisms.

Climate Change Commission, Bangko Sentral ng Pilipinas, Securities and Exchange Commission and Cooperative Development Authority to include Microagri in their advocacy and financial literacy activities.

Government and the private sector to formulate a data sharing protocol for purposes of developing the MicroAgri sector.

Encourage other government agencies to promote and advocate MicroAgri in their respective jurisdictions.



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