

Disaster Risk Insurance for MSMEs in the Philippines



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Executive Summary

Between 1997-2016, the Philippines has been ranked fifth among most affected countries from the effects of climate change in the Global Climate Risk Index 2018 study by German Watch. The Philippines along with China, the United States, Indonesia, and India were identified by AIR as the five countries most frequently hit by natural disasters due to location, country size, the presence of multiple risks, resilience against the effects and its access to insurance instruments.

The Department of Trade and Industry, Philippines with the Asian Disaster Preparedness Centre and the GIZ Global Initiative on Disaster Risk Management has also conducted a study on Disaster Resilience of Micro, Small, and Medium Enterprises (MSMEs) in the Philippines: Enabling Environment and Opportunities, in July 2016. These studies emphasized a demand for insurance to protect against natural catastrophes among MSMEs, need for deeper understanding of insurance options by MSMEs, design of more responsive products, as well as unsustainable coping mechanisms.

The Context

In this context, GIZ RFPI Asia, engaged *MicroSave*, to undertake a market research across three regions of Luzon, Visayas and Mindanao, to engage with MSMEs in these three regions and understand their need for insurance solutions against natural catastrophes that their businesses face on a rather regular basis.

The objectives of the study

- To research, process and consolidate data on significant natural catastrophes and their impact on MSMEs in the last 25 years
- To document the formal and informal coping mechanisms among MSMEs in response to damages from Nat Cats in the last 25 years, including access to insurance
- To document all existing formal financial instruments, government programmes, and subsidies, international assistance in the last five years, and their effect on the financial status of MSMEs in three temporal events: right after Nat Cats, six months after, and one year after the event
- To recommend insurance products for MSMEs
- To recommend corresponding adoptive strategies through disaster risk management that will address the different impact of Nat Cats

The Market Research

In order to develop a risk transfer product for enterprises, it is essential to understand risks faced by MSMEs, the extent and nature of losses due to such risks and coping strategies that they adopt to finance losses and carry on with their livelihoods. For a comprehensive understanding of these aspects, *MicroSave* with the help of GIZ and DTI, conducted qualitative research with 121 MSMEs across Luzon, Visayas and Mindanao. These MSMEs filled in a qualitative questionnaire (annexure 1). In addition, *MicroSave* conducted a series of focussed group discussions (FGDs) with more than 50 MSMEs, who had also taken part in the qualitative survey.

The key characteristics of the participating MSMEs

The 121 respondents identified for this study was through DTI, Philippines. DTI, identified for the survey those MSMEs that were registered with it in the regions of the study and have been engaged with DTI to build upon their capacities and seek benefits from the technical assistance being provided by DTI to build their capacities.

Our survey also tells us that most of these MSME entrepreneurs are:

- Well educated, with most the respondents being college graduates
- Are motivated enough to secure support through entities DTI to grow through MSMEs
- While most of these are micro enterprises, they are more in the aspirational than survivor category, making them more forward looking to invest in their business.
- Most of these respondents have first or second hand seen the risks posed by natural disaster and accept it as a fact of life making them keen to understand how they can prepare themselves better to face and finance these risks.

The respondents were typically more inclined towards setting aside money for a contingency however, not many were able to show the needed fiscal discipline to create a substantial savings pool to dip into. Behavioural triggers such as convenience, easy accessibility and cost of funds are more important for this segment. The hassle factor around buying and claim processes for insurance is a deterrent for people of this profile. Another behavioural bias in this profile is a trust deficit in external entities.

Key insights and findings from the research conducted are the following:

- MSMEs in the three regions show a high degree of heterogeneity and there is a great degree of variation in their scale, operations and the challenges they face. This makes it challenging to design a suitable insurance product for this segment. Hence, there is a need to find the ‘lowest common denominator’ amongst this segment.
- While there are many kinds of losses MSMEs can and do suffer in the face of natural disasters, the real “manifestation” of losses for the MSMEs is disruption of their business (caused by either loss of assets or disruption of the value chain etc.).
- The need for risk financing is almost always immediate to “re-start” their business and in accessible cash.
- Most MSMEs believe that they have to rely on themselves to finance their risks as not all MSMEs see formal or informal sources of credit as a reliable means of financing, as they see the process to get this support very time consuming or the processes are very document heavy, making these financing options delayed.
- The key risks as identified the MSME respondents are - Typhoon, Floods, Fire, Theft and Work place accidents. These are another set of ‘lowest common denominators’ identified.
- Another ‘lowest common denominator’ arising from the survey is that most MSMEs would like to self-finance their risks as that’s the most reliable medium as per them.
- Interest in insurance as a risk financing mechanism has good appeal amongst the respondents, however they do not have a good grasp of the concept of how insurance works and how it can help them.

What MSMEs in the Philippines need in their insurance solution against natural catastrophes?

At the broadest level, MSMEs report disruption of their business as the biggest challenge in the face of natural and other business risks and would like to receive quick access to financing to restart their business. Insurance can be a suitable solution for the same, provided it is easily accessible and affordable, covers a basic set of risks and calls for rational documentation and pays-out quickly when the claims arise in the aftermath of a mishap. The two lowest common denominators amongst are surveyed sample are:

- **Cover 5 key risks** - Typhoon, floods, Fire, theft and workplace accidents
- **Swift Pay-outs** -Pay the benefits as soon as possible to re-start the business

Based on these two findings as the pillars of our recommendation, we advise to design and offer a ‘**Business Resumption insurance cover**’. Simply put, this insurance cover will offer a sum insured to restart the business in case any MSME suffers one of the key 5 risks that disrupts its business for a pre-defined amount of time. Of course, any other risk can be covered as an add-on to this product, if and when demanded by the MSMEs.

Introduction

The Philippines is the 4th most vulnerable country to natural catastrophes, with an estimated USD 1.6 billion in economic losses in the past decade¹. Because of its geographic location, the Philippines faces a full range of hazards, including floods, El Nino-induced droughts, typhoons, earthquakes, landslides, and volcanic eruptions. Such diverse and frequent natural calamities expose people to financial shocks that severely undermine economic growth and constraint poverty alleviation.

To proactively mitigate the shocks caused by natural catastrophes, especially for the economically weak population, Philippines adopted the Sendai framework (conceptualised by United Nations International Strategy for Disaster Reduction) in 2015. The framework identifies the private sector as a crucial stakeholder to build disaster proof communities. It envisages risk transfer and mitigation through disaster risk insurance as a key to building resilience and enabling rehabilitation.

Natural Disasters in the Philippines

Typhoons and tropical storms

- The Philippines lies along the typhoon belt on the Western North Pacific Basin where 66% of tropical cyclones enter or originate, which makes it the most exposed to tropical storms in the world.
- Typhoons average 20 events per year, of which 25 to 30% can be rather destructive. The eastern seaboard is particularly exposed with wind speeds greater than 150 kilometres per hour.
- Tropical cyclones are responsible for an average of 40% of the annual rainfall in the country.

Floods

- Mean annual rainfall in the country varies greatly from 965 mm to 4,064 mm.
- Slow moving or almost stationary tropical cyclones account for extended periods of rainfall.
- Environmental factors such as denuded forests aggravate flood risks.

Earthquakes and tsunami

- Situated in the Pacific Ring of Fire, the country lies where two major tectonics meet. This explains the occurrence of earthquakes and tsunamis.
- 100 to 200 earthquakes are felt every year
- 36,289 km. of coastline is vulnerable to tsunami

Drought

- The country is vulnerable to the El Niño Southern Oscillation (ENSO) that causes frequent dramatic droughts.
- Agricultural communities, suffering from widespread crop losses, are particularly vulnerable to drought caused by El Niño.

Volcanic eruptions

- The Philippines counts 220 volcanoes out of which 22 are active

MSMEs account for 99.5% establishments in Philippines and provide 65% of the total employment in the country. The sector contributes 35% of the country's gross domestic product (GDP). MSMEs contribute an economic value of 35.7%, of which small industries make up 20.5%, of all goods and services produced in the Philippines², making the sector an economic back bone of the country.

MSMEs remain highly vulnerable to natural calamities which are detrimental to both lives and business. According to a GIZ study³, 25 percent of MSMEs do not reopen once hit by a major disaster. In 2009, following Typhoon Ondoy and Pepeng, damages cost the MSME sector a total of \$4.4 billion, about 2.7 percent of that year's GDP. When disasters strike, MSMEs lose between PhP 250, 000 to PhP10 million, making it particularly hard for them to recover. Thus, despite the huge contribution of the sector to the Philippine economy and their stark vulnerability to natural catastrophes, there is a dearth of comprehensive insurance products that would

¹ The Philippine Approach to Inclusive Insurance Market Development – Case Study

² Insurance Needs Assessment for Micro, Small and Medium Enterprises in the Philippines – GIZ RFPI

³ Global Initiative on Disaster Management – GIZ RFPI

protect the livelihood and interests of MSMEs. Several GIZ studies point to the need for insurance to protect against natural catastrophes among MSMEs, need for deeper understanding of insurance options by MSMEs, design of more responsive products, as well as the existing unsustainable coping mechanisms⁴. The inherent heterogeneity of the MSME sector, in terms of size, age, geography, and economic status, particularly among microenterprises also limits availability of appropriate microinsurance products⁵.

In this context, GIZ RFPI Asia, engaged *MicroSave*, to undertake a market research across three regions of Luzon, Visayas and Mindanao, to engage with MSMEs in these three regions and understand their need for insurance solutions against natural catastrophes that their businesses face on a rather regular basis.

MSMEs in the Philippines

Definition of MSMEs

The Magna Carta⁶ for Micro, Small and Medium Enterprises defines MSMEs as “...any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity’s office, plant and equipment are situated, must have value falling under the following categories:”

Particulars	Micro	Small	Medium
Assets (Excluding Land)	Not more than PhP 3 million	between PhP 3-15 million	between PhP 15 - 100 million

The Magna Carta also allows for the use of alternate variables to define MSMEs. The Philippine Statistics Authority for instance uses *number of employees* to classify the enterprise as micro, small or medium enterprises.

Particulars	Micro	Small	Medium
Employees	1-9	10-99	100-199

Contribution of MSMEs to the national economy

Micro, Small and Medium Enterprises play a very important role in the economy of the Philippines, through their economic activities and providing employment to a significant section of the population. The 2016 MSME Statistics released by the Department of Trade and Industry (DTI) notes that there are 820,795 micro enterprises in the Philippines which accounts for 89.63% of all enterprises. Similarly, small enterprise accounts for 9.50% of all enterprises and medium enterprises account for 0.44% of the enterprises. Micro enterprises employ 30% of the total workforce, while small enterprises employ 26% and medium enterprises employ 7% of the workforce. The small and medium enterprises are the ones who are able to generate higher employment averaging around 23 and 137 employees respectively, and micro-enterprises are usually proprietorships with one to three employees. These figures also highlight the importance of MSMEs to the Philippine economy. MSMEs account for 99.57% of all businesses and employ 64% of the national workforce. The MSME statistics further note that 60% of all exporters in the Philippines are MSMEs accounting for 25% of all exports.

⁴ Disaster Resilience of MSMEs in the Philippines: Enabling Environment and Opportunities, July 2016

⁵ Study by CENFRI on the insurance needs of MSMEs

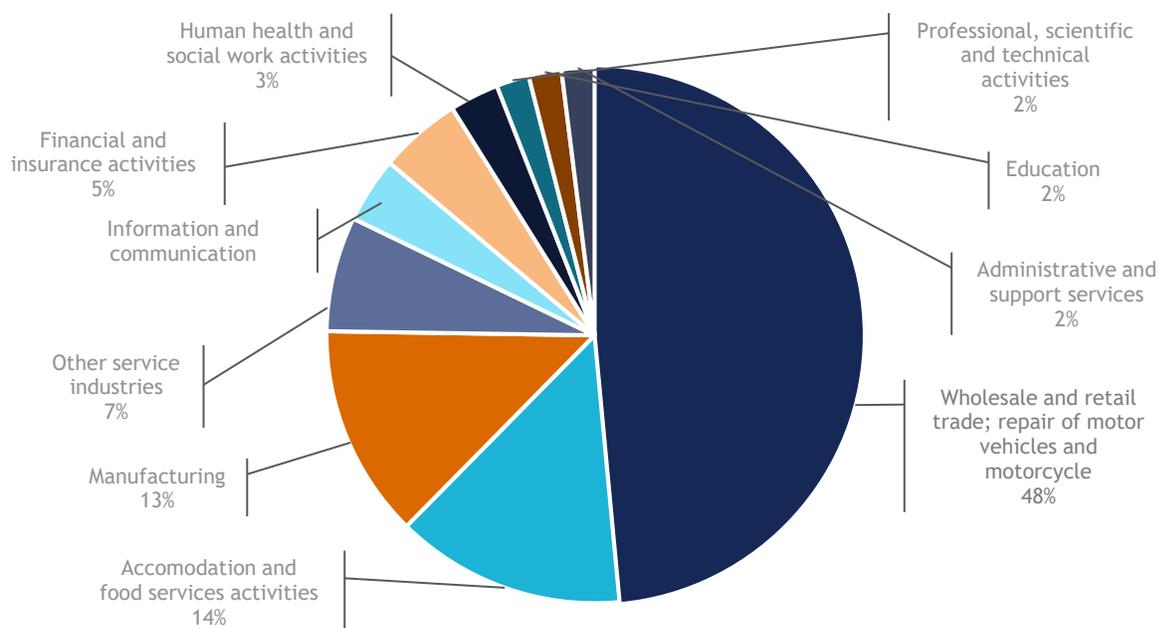
⁶ Republic Act no 9501, Magna Carta for Micro, Small and Medium Enterprises

Distribution of MSMEs across sectors and regions

The MSMEs in the Philippines are largely concentrated in the Luzon and Visayas region with the Mindanao region lagging behind. The five most MSME dense regions in the Philippines are the National Capital Region (NCR), with 190,166 establishments, CALABARZON with 131,011; Central Luzon with 100,880; Central Visayas with 53,218; and Ilocos with 47,996 business establishments. These locations accounted for about 59% of the total number of MSME establishments in the country.

The MSMEs in the Philippines work in varied sectors, however wholesale and retail trade is the largest sub-group accounting for 49% of all MSMEs. Accommodation and Food Services, and manufacturing are the two other important sectors accounting for 14% and 13% respectively (see chart below).

Chart 1: Sector wise distribution of MSMEs in the Philippines



Natural Catastrophes in the Philippines and effects on MSMEs

MSMEs bear the disproportionate effects of natural catastrophes

Disasters have shown significant impacts on all types of businesses impacting business activities and their continuity. These effects are disproportionately higher for MSMEs because “they tend to operate in sub-optimal locations; are smaller and financially weaker; have a more limited, usually local market; tend to implement less DRR measures and be more excluded from recovery programs⁷.” The handicap of the MSMEs in coping with disasters are twofold

- MSMEs have less financial and technical resources to cope with the risk
- MSMEs typically operate among the community and hence a disaster’s impact and damages to the community is felt even strongly by the MSMEs, especially for the micro enterprises. This is so because the informal mechanisms of supporting each other that a community provides holds true in situations where the

⁷ The impact of natural disasters on Micro, Small and Medium Enterprises (MSMEs): A case study on 2016 flood event in Western Sri Lanka, Gunathilanka Samantha, 2017

impact of an event is not felt across the community. However, in the case of a natural catastrophe, such informal mechanisms break down as all the members of the community are affected and hence the scope to help each other out informally is very limited.

A recent study conducted by GIZ noted that a quarter of MSMEs do not reopen after being hit by a major disaster. National Economic Development Authority (Neda) estimates that more than half a trillion pesos worth of losses and damages were caused by Yolanda⁸. The table below lists out the highest impact disasters in the Philippines over a 25-year period between 1993 and 2018.

Table 1: highest impact disasters in the Philippines between 1993 and 2018

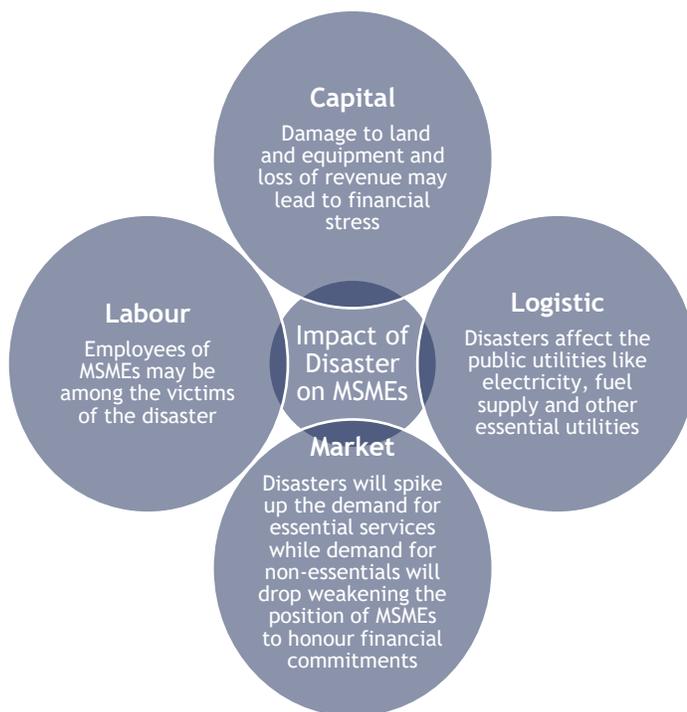
Name	Type	Year	damage ('000 US\$)	Totals deaths	Total population affected
Typhoon Haiyan (Yolanda)	Storm	2013	10,000,000	7,354	1,61,06,870
Flood	Flood	2013	2,190,000	1,901	62,46,664
Typhoon Chan-Home	Storm	2015	1,500,000	1,619	49,01,763
Typhoon Bopha	Storm	2012	898,352	1,439	47,85,460
Typhoon Rammasun (Glenda)	Storm	2014	820,576	1,399	46,54,966
Flood	Flood	1995	700,300	1,126	44,78,491
Tropical Storm Ondoy (Ketsana)	Storm	2009	585,379	882	44,51,725
Typhoon Pedring	Storm	2011	344,173	737	41,50,400
Typhoon Fengshen	Storm	2008	284,694	644	39,02,424
Typhoon Megi	Storm	2010	275,745	512	38,42,406

Source: The Emergency Events Database - Universite catholique de Louvain (UCL)

⁸ <https://bit.ly/2MjSggu>

The impact of disaster on the MSMEs can be divided into four broad areas²

Figure 1: Impact of disasters on MSMEs



Disaster risk financing in the Philippines - International and National efforts

The type of insurance products available for MSMEs in the Philippines are fire insurance, accident, health, pension, motor-tpl, and liability insurance. There were more than 20 providers both public and private providing these insurance products⁹. The products that cover risks to properties include perils of calamity, fire, lightning and motor. Most common perils covered are calamity and fire. Micro enterprises are offered cash assistance while indemnity is used to determine the level of benefits for small and medium enterprises. Most common products that cover risks to business liabilities are Comprehensive General Liability (CGL) and Money, Securities and Payroll (MSP). Third Party Liability (TPL) and Riot, Strike and Malicious Damage (RSMD) are other products being offered.

According to the diagnostic toolkit for insurance against Natural Catastrophes for MSMEs in the agricultural and mining sectors developed by MEFIN Network and GIZ RFPI Asia mentions “*although MSMEs comprise more than 99 percent of registered businesses in the Philippines, the available insurance options for MSMEs are limited, especially against NatCats. Conventional insurance products and services fail to consider that especially micro and small enterprises are part of the agricultural value chains with varied protection needs (e.g. livestock products; food processing; traders). Only very few insurance providers offer (micro) insurance products against disasters.*”

Bank loans are an important coping mechanism for MSMEs but smaller enterprise face difficulties in accessing credit and often lack the sufficient collaterals - reasons, which do not allow for a quick recovery of the enterprise. Although micro, small and medium enterprises (MSMEs) have some insurance coverage (78% of

⁹ Insurance Needs Assessment for Micro, Medium and Small Enterprises in the Philippines, GIZ 2014

respondents with experience with insurance, GIZ 2014), conventional products and services fail to take into consideration that MSMEs are part of value chains whose segments may each have distinct risk protection needs and lack protection against natural disasters.¹⁰

Efforts towards Disaster Risk Insurance and Financing in the Philippines

Philippines Crop Insurance Corporation: PCIC provides insurance cover for various agricultural producers, incl. subsistence farmers against crop losses from pest & disease and to non-crop agricultural asset such as livestock, and catastrophic losses due to fire & lightning, or earthquake and they offer products for SME.

There exists a whole host of national funds for disaster risk financing in the Philippines. Some of the options are mentioned below

- National funds for DRM, e.g. NDRRMF, national reserves, Cat DDO, sector department funds, loan programs
- Local Disaster Risk Reduction and Management Fund, LDRRMF
- People's Survival Fund, for Local Government Units, NGOs, and other initiatives. A total of USD 22 million/ annually plus donor funding
- LGU rehabilitation plans post submission to national government

The government also came out with certain programmes to aid the DRF mechanism for the private sector with an emphasis on MSMEs. Some of the programmes are mentioned below

- Time-bound Enterprise Rehabilitation Financing Program (ERFP) to support the recovery of MSMEs
- The Credit Support Fund (CSF) a USD 46 million assistance program managed by the Land Bank of the Philippines that is intended to provide loans to approx. 416,000 micro-entrepreneurs affected by Yolanda for livelihood activities – Community Development Fund for cooperatives

The central bank BSP (Bangko Sentral ng Pilipinas) also announced a number of policy decisions to facilitate credit flow in the wake of Typhoon Yolanda.

- BSP extended the depreciation period for writing off bad loans to ease banks' cash position and improved credit flow
- BSP also allowed an extension of the existing loans without classifying them as restructured loans and extending the period over the usual 30 days, both of which have reduced banks' risk assets and increased their lending capacity

In addition, the Department of Trade and Industry (DTI) partnered with three financial institutions, the Small Business Corporation, the Development Bank of the Philippines and Land Bank of the Philippines, to provide additional loans to MSMEs

Strategies for disaster risk management in the Philippines

A report on the *Strengthening the Disaster Resilience of Small and Medium Enterprises in Asia* by the Asian Disaster Preparedness Center and the Department of Trade and Industry, Philippines divides two broad categories of disaster risks faced by MSMEs

1. Shared community disaster risks
2. Business continuity disaster risks

Managing Shared community disaster risks

MSMEs in the Philippines and more importantly the microenterprises which form approximately 90% of the enterprises in the country are located within the community that they seek to serve. The proximity to their community also points to the fact that a whole different strategy to manage these risks for MSMEs may not be

¹⁰ The role of Microinsurance in Disaster Risk Financing and Management in the Philippines, GIZ RFPI Asia 2015

required. Such policy tools should be part of the national disaster risk reduction and management (DRRM) laws, policies and institutions, including those addressing climate change adaptation, and disaster risk financing¹¹.

Business continuity risks

MSMEs may also have vulnerabilities due to their nature of business, location and specific attributes prevalent in the industry and sometimes these MSMEs may also get affected because their supply chains are affected¹². MSMEs risk the loss of goods and assets, owners and employees face the risk of loss of short or long-term loss of income. The challenges of business continuity risks are best addressed by encouraging MSME development and improving the economic resilience of MSMEs. Improving the ease of doing business, reducing compliance and taxes, non-financial services and access to finance are the policy tools that help address business continuity risks.

¹¹ “*Strengthening the Disaster Resilience of Small and Medium Enterprises in Asia*” Asian Disaster Preparedness Center (ADPC) and Department of Trade and Industry (DTI), Philippines May 2016

¹² Engaging Asia’s Private Sector in Disaster Risk Management

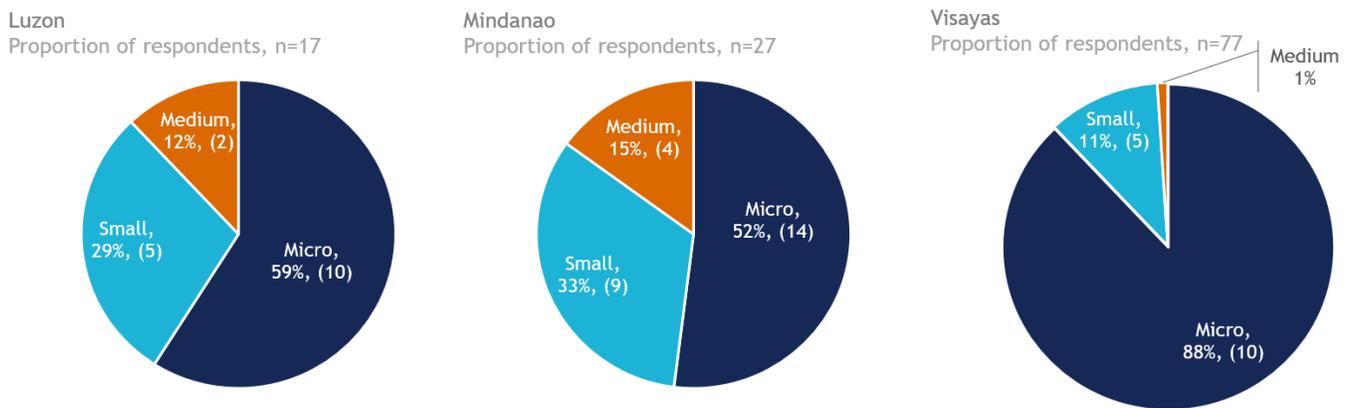
Market Research

As mentioned in the terms of reference, the predominant objective of the project is conducting a market research in 3 regions of Philippines, Luzon, Mindanao and Visayas, is to identify suitable microinsurance products for MSMEs in the Philippines. Specifically, the objectives of the study were:

- To document all existing formal financial instruments, government programmes, and subsidies, international assistance in the last five years, and their effect on the financial status of MSMEs in three temporal events: right after NatCats, six months after, and one year after the event
- To recommend insurance products for MSMEs
- To recommend corresponding adoptive strategies through disaster risk management that will address the different impact of NatCats

In order to develop a risk transfer product for enterprises, it is essential to understand risks faced by MSMEs, the extent and nature of losses due to such risks and coping strategies that they adopt to finance losses and carry on with their livelihoods. For a comprehensive understanding of these aspects, MicroSave with the help of GIZ and DTI, conducted qualitative research with 127 MSMEs in Luzon, Visayas and Mindanao. After data cleaning, the sample construct for 121 respondents is below (a more detailed profile of respondents from the region is available in annexure 1):

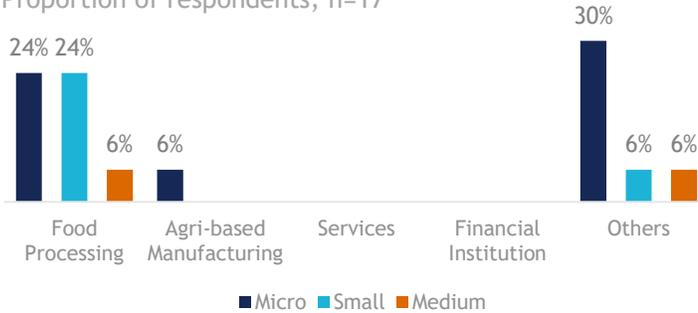
Chart 2: Business profile of respondents



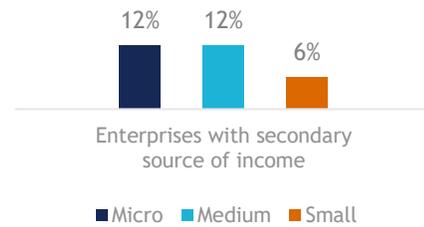
Nature of the MSMEs studied - What do they do?

Charts 3-8: Nature of business and secondary source of income (Luzon, Visayas, Mindanao)

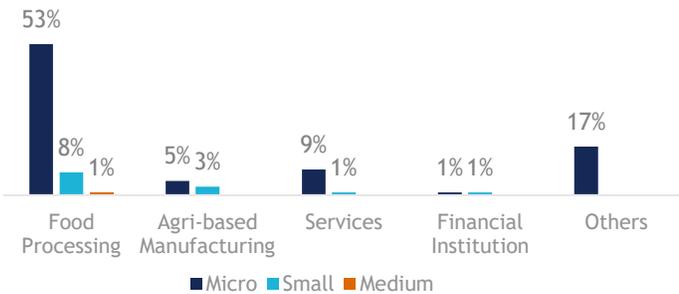
Nature of business, Luzon
Proportion of respondents, n=17



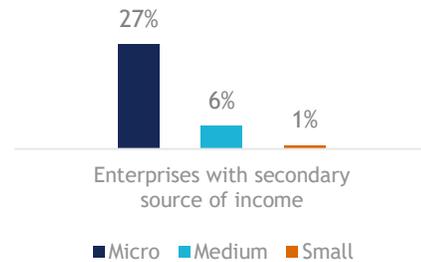
Secondary source of income
Proportion of respondents, n=17



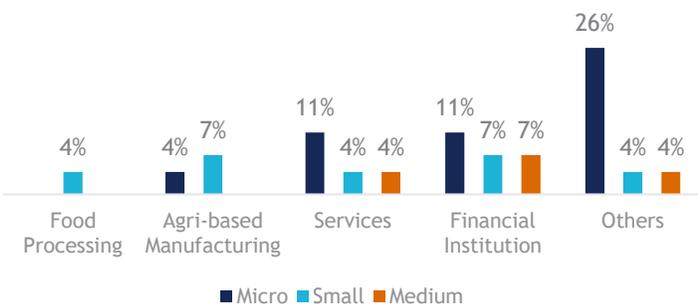
Nature of business, Visayas
Proportion of respondents, n=77



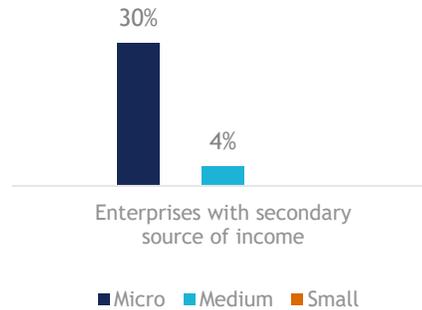
Secondary source of income
Proportion of respondents, n=77



Nature of business, Mindanao
Proportion of respondents, n=27



Secondary source of income
Proportion of respondents, n=27



Heterogeneity of the MSMEs

While food processing and agriculture-based processing emerge as two major areas of enterprise amongst the surveyed firms, the *heterogeneity* of these businesses, in terms of their nature, scale and operations is something that needs to be kept under consideration when analysing them from a risk mitigation solutions perspective. Other categories of enterprises included trading and manufacturing activities such as machine shop, leather manufacturing, etc.

Even within the same ‘sector’ of enterprises, say food processing, there are businesses as different as bakeries, noodle manufacturing to production of multiple sauces and other food items, that may run from a room of the house of the entrepreneur’s family to enterprises that are mechanised. **This heterogeneity is a challenge in developing a “one size fits all” approach to insurance product development when it comes to the MSMEs.** Hence, contextualisation of the insurance solutions for the MSMEs remains a challenging proposition. *One possible approach can be identifying the “Lowest Common Denominator” of risks that these MSMEs face and these could be natural catastrophes and basic, common business risks.*

Recent Experience with Natural Catastrophes by the MSMEs

The following tables summarise the number of MSMEs that reported losses due to natural catastrophe in the three regions:

Table 3: Losses due to NatCats reported by MSMEs in Luzon

Year	Nat Cat	Micro	Small	Medium
2009	Typhoon	1	1	0
2013	Typhoon	0	1	0
2017	Typhoon + Flood	1	2	1

Table 4: Losses due to NatCats reported by MSMEs in Mindanao

Year	Nat Cat	Micro	Small	Medium
2012	Typhoon	4	1	1
2013	Typhoon + Flood	0	4	0
2014	Flood	1	0	0
2015	Typhoon + Flood	2	1	0
2017	Typhoon + Flood	0	1	0

Table 5: Losses due to NatCats reported by MSMEs in Visayas

Year	Nat Cat	Micro	Small	Medium
2013	Typhoon	38	2	1
2014	Typhoon	1	0	0
2015	Typhoon	1	1	0
2017	Typhoon + Flood	4	0	0

The major take away from these observations is that across the three regions, Typhoons and Floods, appear as the “Lowest Common Denominator” of risks that MSMEs face.

Business Disruption

During the course of the study and the FGDs, business disruption i.e. shutting down of business due to natural catastrophe emerged as the single most reported challenge that the MSMEs face in the after math of a natural catastrophes. *Restarting the business at the earliest after a catastrophe was reported to be the number one priority of almost all MSMEs that we engaged with during the market research phase.* Following is a summary of the self-reported average number of days that MSMEs suffered due to natural calamities in the last 5 years:

Table 6: Business disruption due to NatCats reported by MSMEs

Region	Average Days of Disruption	Number of MSMEs that reported disruptions	Number of Businesses that could not recover
Luzon	21	9	NA
Mindanao	57	8	2
Visayas	90	28	12

It is interesting to observe that while the survey covers quite a few MSME entities that have been operational for a period of more than 10 years, the MSMEs in general, have reported losses due to natural calamities generally going back to 2012 - 2013 or later only (though respondents from Luzon reported typhoons from 2009 as well).

In fact, on probing during discussions to identify natural catastrophes older than 2009, most entrepreneurs, could not name any, mainly because most of their businesses were only 5 years older or less. “Recency-effect” may also be at play here, i.e. the damage from a recent disaster is still fresh in people’s memories (like Super Typhoon Haiyan) than other lesser catastrophes which may have been relatively ignored.

Also, as most micro enterprises do not survive a major natural catastrophe, we have seen a relatively a smaller number of micro entities that have experienced disaster, and it is a relatively safe assumption to make that most such entities that suffered huge losses were not able to open back up for business. Of the entrepreneurs that we spoke to, less than 10 responded that they lost their previous business and they could start another business, but only after months and years of gap between the two ventures.

Another key ‘Lowest Common Denominator’ that we can infer from this is that the most ‘tangible’ outcome of natural catastrophes can be seen in the disruption it causes to the MSMEs in re-starting their business.

Estimating Financial Losses Caused by Natural Catastrophes in the Last 5 years

Financial loss to business in the after math of a natural catastrophe has been categorised as direct and indirect losses. **Direct losses** include (a) Loss of assets such as building, machinery, equipment and (b) Loss of inventory. **Indirect losses** include (a) Loss due to business stoppage (b) Loss in value chain including - loss due to non-availability of raw material and loss in sale to the end buyer.

Table 7: Average business losses due to NatCats reported by MSMEs

Region	Luzon			Visayas			Mindanao			
	Enterprise	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
Average Direct Losses in PhP (Losses to property, machinery, stock and raw materials etc.)		6000	280000	24790000	297151	114600	3000000	116428	406944	-
Average Indirect Losses in PhP (loss due to value chain disruption, closure of business etc.)		26500	307950	22100000	344755	132800	1000000	153570	559860	325000

Average Overall Loss in PhP	32500	587950	46890000	641906	247400	4000000	269998	966804	325000
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Overall, indirect losses account for more cumulative losses than direct loss suffered by the business due to Natural Catastrophes. There is a substantial opportunity loss, when the entire business value chain suffers. This includes lack of raw material availability, inflated costs, driving down margins. Also, at the customer end of the value chain, demand for products other than essentials goes down in times of Natural Catastrophes, owing to the wide spread destruction.

Hence, it is not only important to protect the assets of an MSME in the face of a natural disaster, the risk mitigation solutions also need to look at the value chain of the MSMEs and identify mechanisms that will enable the MSMEs to become functional again and hence minimising the losses caused by business disruptions.

The insight from this analysis is that the indirect losses that MSMEs face, due to value chain disruption and business shut down, is on average higher than the direct losses that they suffer from. This finds further resonance to the idea that the need for ‘re-starting’ the business after a disaster is the “lowest common denominator” as the key challenge for the MSMEs.

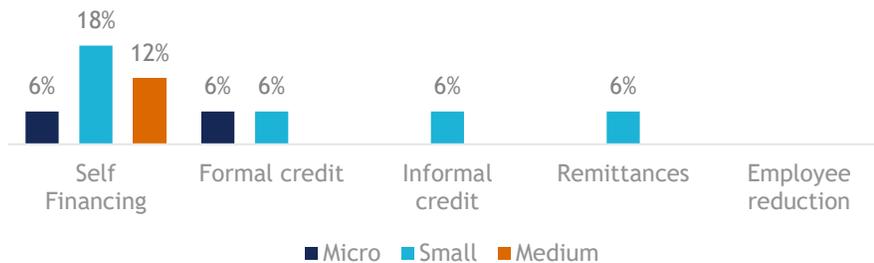
How have the MSMEs financed their losses caused by Natural Catastrophes

During the field visits, it was observed that the decision point for financing losses is not restricted to one avenue. More often than not, people finance losses from multiple sources, based on access and comfort with the avenue. Though the first choice is to self-finance losses, but due to the extent of losses there is a need for credit influx to restart business operations, after a Natural Catastrophe.

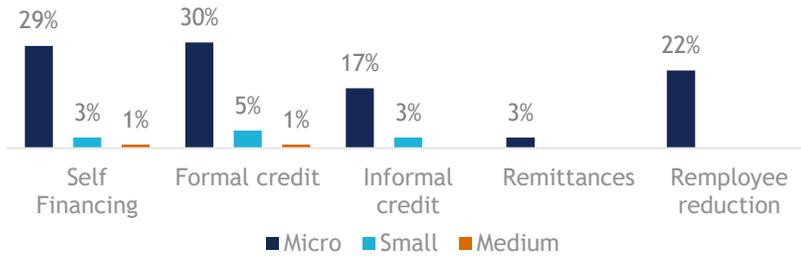
Of the total 121 respondents, 34% respondents took formal credit to recover from losses, while 33% respondents reported self-financing losses. Only 16% respondents took financial support from informal sources. Employee reductions were resorted to by 18% respondents and remittances are the lowest preferred source of financing, with only 2% respondents reporting usage.

Charts 9-11: Reported avenues for financing losses (Luzon, Visayas, Mindanao)

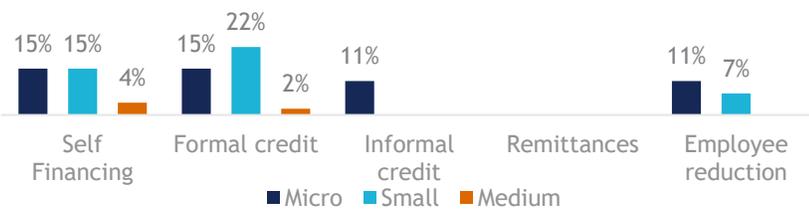
Avenues preferred for financing losses, Luzon
Proportion of respondents, n=17



Avenues preferred for financing losses, Visayas
Proportion of respondents, n=77



Avenues preferred for financing losses, Mindanao
Proportion of respondents, n= 27



“ I can cope better if I can self- finance losses, without worrying about paying instalments. However, with bigger business, credit becomes important ”

-A micro entrepreneur

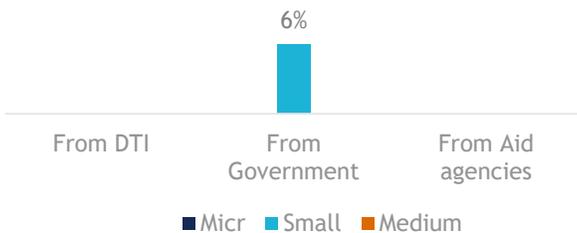
During qualitative discussions it was interesting to observe that while most respondents said that they prefer savings as the most reliable source of financing their losses, however, their savings can only support their personal/business needs, not more than 8 to 10 days, in case of a catastrophe. Hence, it is safe to predict that most MSMEs are still relatively unprepared to self-finance losses.

Other Support to MSMEs after Nat Cats

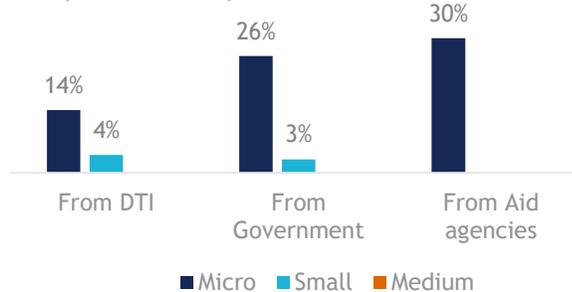
Financial and non-financial support through government agencies and disaster relief agencies could be another fall-back for people to recover from effects of the disaster. However, the access and availability of these funds varies across regions and types of enterprises.

Charts 12-14: Support received from DTI, Government and Aid agencies (Luzon, Visayas, Mindanao)

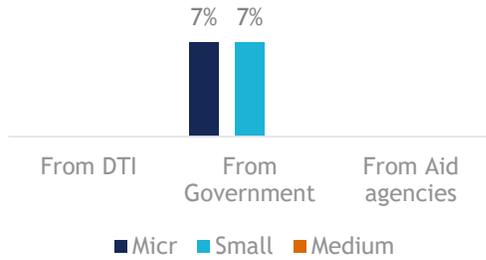
Support from agencies, Luzon
Proportion of respondents, n= 17



Support from agencies, Visayas
Proportion of respondents, n=77



Support from agencies, Mindanao
Proportion of respondents, n=27



“Aid agencies generally provide non-financial support to families. It is difficult to get finance for business from the agencies”

-A medium enterprise owner in Luzon

Support from aid agencies

Aid from disaster relief was reported to be more accessible in Visayas region, in the form of food supplies and business loans of an average amount of 50,000 PhP. No respondents reported receiving support from aid agencies, in Mindanao or Luzon region. This may be because Typhoon Yolanda was the strongest in the Visayas area that also attracted large scale focus from aid agencies. **However, most support was said to be received after a 6-month period by most MSMEs.**

Government support

Government support is mostly accessed through DOST-loan set up, with the support received after estimated 6 months to 1 year, from the Natural Catastrophe.

DTI support

DTI has a top of the mind recall for its non-financial support after Natural Catastrophes and other supporting activities that it has undertaken on the recent part. Support received from DTI is through market linkages, trade fairs, Training on various aspects of business through Mentor Me programme, moral support during the crisis and BCP seminars. While such support is appreciated by the MSMEs as a means of strengthening their capabilities to be more successful entrepreneurs, most of them did not make the connection on how this support can help them recover faster from outcomes of natural disasters. A case in point being the trainings on “Business Continuity Planning” as discussed below.

Risk Management Planning

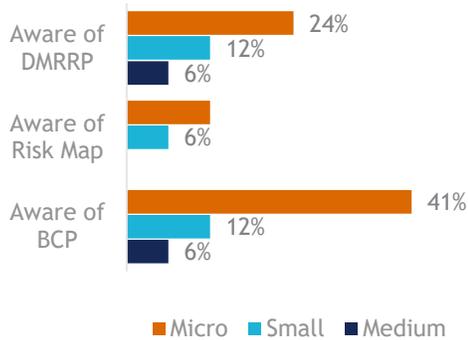
The National Disaster Risk Reduction and Management Plan (NDRRMP) lays down the basis for policies, plans and programs to deal with disasters. The NDRRMP covers four thematic areas, (1) Disaster Prevention and Mitigation; (2) Disaster Preparedness; (3) Disaster Response; (4) Disaster Rehabilitation and Recovery. Along with this, a Business Continuity Plan (BCP) helps ensure that business processes can continue during a time of emergency or disaster.

Awareness of these plans, a collaborative effort on developing a BCP and subsequently effective implementation could help enterprises weather the risks posed by natural catastrophes. Awareness thus is the first step towards building more resilience during Natural Catastrophes.

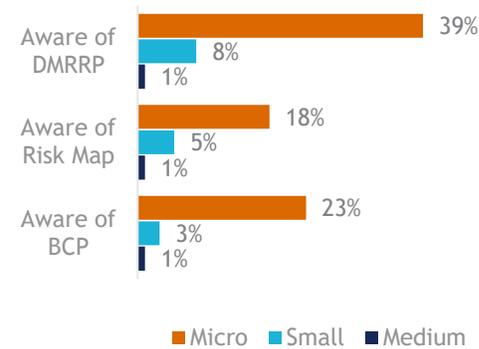
Below is a snapshot of the awareness status of risk management plans, among MSMEs in Luzon, Visayas and Mindanao:

Charts 15-17: Risk Management awareness among respondents (Luzon, Visayas, Mindanao)

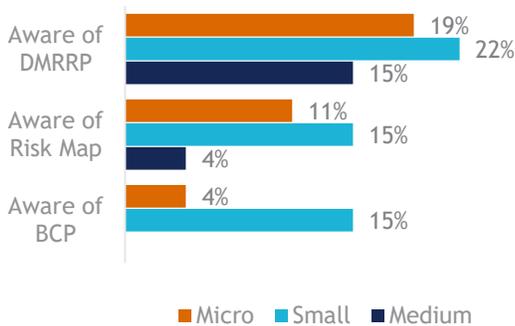
Risk management awareness, Luzon
Proportion of respondents, n=17



Risk management awareness, Visayas
Proportion of respondents, n=77



Risk management awareness, Mindanao
Proportion of respondents, n=27



Of the 121 total respondents, only 30% respondents are aware of the Business Continuity Plan. Of those who have the awareness, 63% have a BCP and further, of those who have a BCP, 48% claimed to have had an opportunity to implement their BCP at their organisation, however we came across only one respondent who claimed to gain benefits from the BCP with an actual account of events (See the box below). Awareness thus increases the potential to develop and implement a continuity plan for business to weather risks that can significantly reduce losses and work in tandem with insurance solutions for MSMEs.

Business Continuity Planning in Action - Opportunity in Adversity

Mr. Nerie S. Manaytay has a microbusiness where he sells low cost mobile phones and accessories like chargers, cell phone cases etc. Just before typhoon Yolanda hit Tacloban City in 2012, acted upon his (informal) business continuity plan once he received the advanced warning of the chances of flooding that would be following the typhoon.

Mr. Manaytay moved his stock to a higher place at his house which was likely to stay above water in the face of floods unlike his shop which is in a lower area that gets flooded rather easily. This simple step of pro-activeness, saved more than 90% of his stocks from being damaged. He was back in business in less than 2 days and was the only seller selling needed products like chargers and phone cables and in his own words - "I did more business in the that week than I had in the previous 12 months"

Use of Insurance as a risk mitigation mechanism

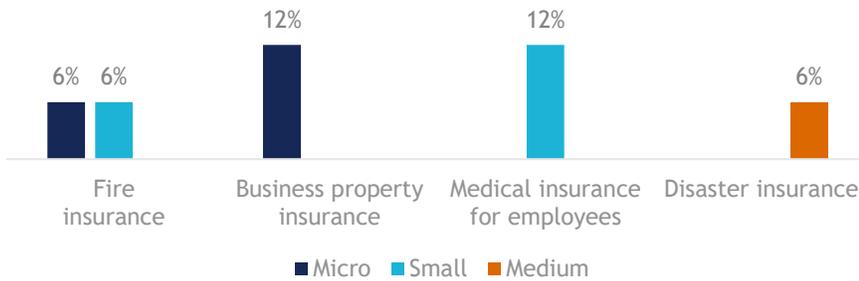
Of the total sample of respondents, only 15% percent respondents stated to have any kind of insurance, either personal insurance and/or enterprise insurance. However, of those who own insurance 50% have a disaster insurance policy for one or more hazards - earthquake, typhoon and flood.

Overall, amongst the sample, there was little understanding of how insurance works or what kinds of products and services are available or suitable for the MSME target market segment. This was also apparent in the discussed willing to pay. Most respondents stated that they will be OK to pay 2 to 4 % of the sum assured as premium for natural catastrophe coverage, provided the service is quick in the aftermath of a natural catastrophe.

Charts 18-20: Insurance usage among respondents (Luzon, Visayas, Mindanao)

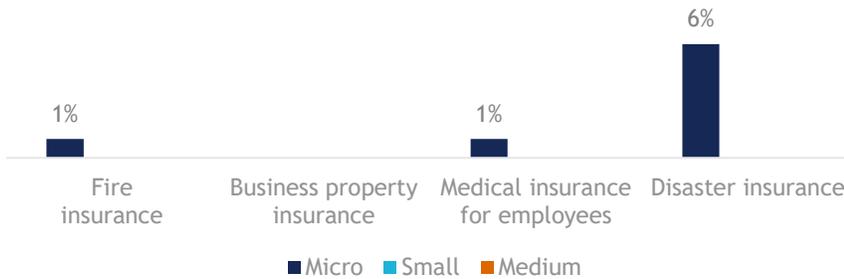
Insurance usage, Luzon

Proportion of respondents, n=17



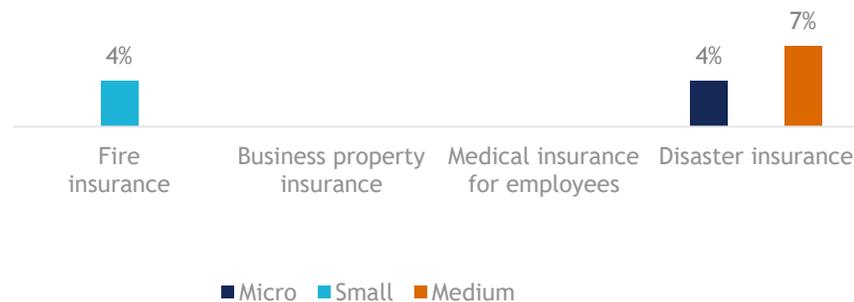
Insurance usage, Visayas

Proportion of respondents, n=77



Insurance usage, Mindanao

Proportion of respondents, n=27



Overall, 89% respondents consider insurance as a viable option to cover losses incurred due to Natural Catastrophes. Most frequent reported reason for insurance as a viable option is that it will enable them to reclaim losses quickly and rebuild and restart businesses. Most frequent reason for not considering insurance as a viable option, was a lack of understanding and not having enough information available about processes and documentation etc. that may be needed to make a decision.

Risks Perception of MSMEs in the Philippines

“Insurance claim processes are a big hassle. Gathering all the documents takes anywhere from 20 days to 2 months!! Even after submitting all claim documents, I had to wait for 6 months from my vehicle insurance to come through!”

-A micro enterprise owner in Luzon

“I have a shop in SM Mall. It is mandatory to buy fire insurance. But the policy amount and premium are fixed. I have a very small shop. The damages in case of fire would be less than the policy amount I have now. I have to unnecessarily pay high premium. Instead of a risk sharing tool, insurance has become an extra cost that is difficult to come up with.—”

A micro entrepreneur in Visayas

Vulnerability to external factors poses great risk for micro and small businesses. MSMEs in the Philippines are exposed to a range of risks from natural catastrophes, to fire, theft and other unfortunate possibilities. We asked respondents to rank in order, their exposure to Natural Catastrophe and other business risks, on a scale of 1 to 5 (1 being highest exposure, 5 being lowest).

Table 8-9: Risk Exposure rank for NatCats and Business risks, Luzon

Natural Catastrophe	Risk Rank	Weighted Responses	Business Risks	Risk Rank	Weighted Responses
Typhoons	1	77	Fire	1	67
Floods	2	60	Work related accidents (self/employees)	2	58
Earthquakes	3	53	Health issues (self/employees)	3	52
Landslides	4	41	Theft	4	46
Droughts	5	33	Loss of life of key business person	5	29

- Typhoons pose the highest risk for Micro and Small enterprise owners.
- While Medium Enterprises consider landslides as the highest-ranking risk
- Fire was reported as the highest business risk, aside from Natural Catastrophes

Natural Catastrophe	Risk Rank	Weighted Responses	Business Risk	Risk Rank	Weighted Responses
Floods	1	112	Theft	1	91
Typhoons	2	103	Fire	2	86
Earthquakes	3	67	Work related accidents (self/employees)	3	65
Droughts	4	47	Health issues (self/employees)	4	62
Landslides	5	44	Loss of life of key business person	5	47

Table 10-11: Risk Exposure rank for NatCats and Business risks, Mindanao

- *Floods pose the highest risk for Micro and Small enterprise owners, owing to business places in flood-prone areas.*
- *While Medium Enterprises considered Typhoons as the highest-ranking risk*
- *Fire and theft are the highest business risk, aside from Natural Catastrophes*

Table 12-13: Risk Exposure rank for NatCats and Business risks, Visayas

Natural Catastrophe	Risk Rank	Weighted Responses
Typhoons	1	142
Floods	2	109
Earthquakes	3	85
Droughts	4	59
Landslides	5	55

Business Risk	Risk Rank	Weighted Responses
Fire	1	118
Theft	2	86
Health issues (self/employees)	3	86
Work related accidents (self/employees)	4	76
Loss of life of key business person	5	74

- Typhoons pose the highest risk of exposure for enterprises in Visayas
- Fire was reported as the highest business risk, aside from Natural Catastrophes

A summation of the rankings from the three regions helps us zero-in on the following self-identified key risks they perceive to their enterprises that have top of the mind recall so to say:

Natural Catastrophe: *Typhoons and Floods*

Other Business Risks: *Fire, Theft and workplace accidents*

Hence, a multi-peril product aimed at the MSMEs in these three regions will have to offer these risk coverages to be attractive to this market segment.

Risk sharing mechanism

To complement the client’s perception of key risks their MSMEs face, we also asked respondents to rank preferred sources of financing to financing from losses, on a scale of 1 to 7 (1 being the most likely source and 7 being the least likely source of financing in the case of a mishap today:

Table 14-16: Preferred risk sharing mechanism (Luzon, Mindanao, Visayas)

Luzon

Risk Financing avenues	Preference Rank	Weighted Responses
Self-Financing	1	82
Formal Credit and Financing	2	72
Insurance	3	70
Informal Credit and Financing	4	66
Government supported Financing	5	63
DTI supported financing	6	61
Remittances	7	35

Mindanao

Risk Financing avenues	Preference Rank	Weighted Responses
Self-Financing	1	82
Insurance	2	78
Informal Credit and Financing	3	72
Formal Credit and Financing	4	69
Government supported Financing	5	49
DTI supported financing	6	44
Remittances	7	25

Visayas

Risk Financing avenues	Preference Rank	Weighted Responses
Self-Financing	1	163
Insurance	2	146
Informal Credit and Financing	3	124
Formal Credit and Financing	4	121
Government supported Financing	5	106
DTI supported financing	6	85
Remittances	7	70

Based on the weighted responses across three regions surveyed, self-financing of these risks is the top choice of MSMEs to finance their emergent risks from natural disaster risks and also those risks arising from day to day business. *Ironically, most respondents didn't have enough savings to support themselves beyond a 10-day period, hence there is an opportunity to push optimal insurance solution as a self-financing mechanism as it seems self-financing while preferred is a difficult option that can be optimally used.* More so because Visayas and Mindanao cited insurance as their second preference (insurance was the third choice in Luzon). The other options included informal and formal sources and support from government was not cited very high in the rankings, mostly because they see it as a source that takes a lot of time coming to help them (most recipients cited receiving any government support after 6 to 12 months)

Summarising the key findings of the survey

To further crystallise the findings from our survey as described above, we would like to bring out some of the salient findings that we have identified:

- MSMEs in the three regions show a high degree of heterogeneity and there is a great degree of variation in their scale, operations and the challenges they face. This makes it challenging to design a suitable insurance product for this segment. Hence, there is a need to find the 'lowest common denominator' amongst this segment.

- While there are many kinds of losses MSMEs can and do suffer in the face of natural disasters, the real “manifestation” of losses for the MSMEs is disruption of their business (caused by either loss of assets or disruption of the value chain etc.).
- The need for risk financing is almost always immediate to “re-start” their business and in accessible cash.
- Most MSMEs believe that they have to rely on themselves to finance their risks as not all MSMEs see formal or informal sources of credit as a reliable means of financing, as they see the process to get this support very time consuming or the processes are very document heavy, making these financing options delayed.
- The key risks as identified the MSME respondents are - Typhoon, Floods, Fire, Theft and Work place accidents. These are another set of ‘lowest common denominators’ identified.
- Another ‘lowest common denominator’ arising from the survey is that most MSMEs would like to self-finance their risks as that’s the most reliable medium as per them.
- Interest in insurance as a risk financing mechanism has good appeal amongst the respondents, however they do not have a good grasp of the concept of how insurance works and how it can help them.

At the broadest level, MSMEs report disruption of their business as the biggest challenge in the face of natural and other business risks and would like to receive quick access to financing to restart their business. Insurance can be a suitable solution for the same, provided it is easily accessible and affordable, covers a basic set of risks and calls for rational documentation and pays-out quickly when the claims arise in the aftermath of a mishap.

Consumer Segment Characteristics

The 121 respondents identified for this study was through DTI, Philippines. DTI, identified for the survey those MSMEs that were registered with it in the regions of the study and have been engaged with DTI to build upon their capacities and seek benefits from the technical assistance being provided by DTI to build their capacities.

Our survey also tells us that most of these MSME entrepreneurs are:

- Well educated, with most the respondents being college graduates
- Are motivated enough to secure support through entities DTI to grow through MSMEs
- While most of these are micro enterprises, they are more in the aspirational than survivor category, making them more forward looking to invest in their business.
- Most of these respondents have first or second hand seen the risks posed by natural disaster and accept it as a fact of life making them keen to understand how they can prepare themselves better to face and finance these risks.

The respondents were typically more inclined towards setting aside money for a contingency however, not many were able to show the needed fiscal discipline to create a substantial savings pool to dip into. Behavioural triggers such as convenience, easy accessibility and cost of funds are more important for this segment. The hassle factor around buying and claim processes for insurance is a deterrent for people of this profile. Another behavioural bias in this profile is a trust deficit in external entities.

Developing a customer centric disaster risk insurance product for MSMEs

Challenges in offering a natural catastrophe insurance solution to MSMEs

Offering natural catastrophe insurance solutions in general has proven to be a major challenge across the world and there is still a search on for developing a sustainable business model around this approach. Adding to this is the fact that offering insurance to MSMEs is a challenging proposition due to the following reasons:

- **Heterogeneity and limitation of data availability on MSMEs:** Data on MSMEs is hard to come by. Owing to their heterogeneous nature, comprehensive data sets that captures their multiple natures, forms and models of businesses is challenging. Most micro and small enterprises generally do not prepare financial statements like a balance sheet or a book of accounts etc. Such lack of data is a major hindrance in the development of a well-informed insurance solution for them.
- **Delivery of insurance services to MSMEs is a challenge:** MSMEs are generally very widely distributed across a geographical region. Hence, serving them becomes a challenge in the absence of an aggregator or a platform that can help an insurer access an optimal number of insurers that may offer a suitable business case.
- **Lack of awareness about Insurance:** This study, and many similar studies, have pointed out that a major number of MSMEs possess very limited awareness about insurance as a financial product, what are its benefits etc. This is another hurdle in offering good insurance solutions to the MSMEs.
- **Pricing of products for MSMEs:** Arising from the lack of reliable data, as well as awareness about insurance, for the MSMEs, there is little information or pointers around what is the willingness to pay amongst MSMEs for an insurance product that they may perceive to be of value.

What do MSMEs want in their natural catastrophe coverage?

The MSMEs we surveyed ranked 5 risks (2 natural catastrophes and 3 other business risks) as the most likely challenge they may face in their business - Typhoon, Floods, Fire, Theft and Workplace accidents. These risks are rated the most likely/feared by micro, small and medium enterprises across the three regions, irrespective of the nature or size of their enterprise.

Based on the findings of our study, the “core” expectation of the MSMEs is to access financing as soon as possible after a disaster so that they can get back on to their feet and restart their business. This expectation has been universally expressed by the MSMEs surveyed, irrespective of the scale and nature of the businesses. Hence, the product that would appeal to them the most would be one which offers a quick pay-out in the aftermath of a disaster.

The product recommendation

Enough has been said and written about the heterogeneity of MSMEs as a key challenge in offering a suitable insurance cover for them. Based on this study, we would like to suggest the “lowest common denominator” approach to product design for the MSMEs based on our findings:

The two lowest common denominators amongst are surveyed sample are:

1. **Cover 5 risks** - Typhoon, floods, Fire, theft and workplace accidents
2. **Swift Pay-outs** -Pay the benefits as soon as possible to re-start the business

Based on these two findings as the pillars of our recommendation, we advise to design and offer a ‘Business Resumption insurance cover’. Simply put, this insurance cover will offer a sum insured to restart the business in case any MSME suffers one of the key 5 risks that disrupts its business for a pre-defined amount of time.

Of course, any other risk can be covered as an add-on to this product, if and when demanded by the MSMEs.

Addressing the delivery of insurance coverage for MSMEs

Most of the MSMEs surveyed, show only a basic awareness about insurance and have expressed limited understanding of where to go to buy an insurance product. The common answers on where to access insurance were that they will approach Cebuana Lhuillier centres (popular pawn shops across Philippines) or approach an insurance company/agent.

During qualitative interactions with the MSMEs, it was observed that the MSMEs will value a person/agent spending some time with them explaining what an MSME coverage will offer, the documentation needed, the premiums to be charged, the claims process etc.

We would advise that an agent driven model for delivery be piloted to gauge the response of the MSMEs. A product that covers natural disasters and business risks can be complex to understand for first time insurance buyers and hence a personalised agency-based approach can help them better understand products and make a positive decision about the product on offer.

Once the product has been accepted and bought by the MSMEs, the premiums and renewals can be done via any number of payment options, most likely being over the counter at the Cebuana Lhuillier centres. Other options like digital payments and bank transfers can also be explored given the educated background of most MSMEs.

Promotion and Client Awareness

Effective communication and awareness are imperative for insurance product penetration. There is a cognizance of disaster risk and the need to buffer from the losses that may occur as a result. However, with multiple avenues available for financing losses, insurance does not come on top of the mind as a risk transfer mechanism. Along with the communication initiated by the insurer, awareness must be created, about the important of insurance per se. An agent-based product delivery system as discussed above would be a good approach to take but there would be need to leverage other avenues too.

DTI offers multiple seminars and session on building business capacities of MSMEs, insurance education may be made a core part of that education and awareness efforts.

Also, DTI conducts the Mentor Me programmes through its Negosyo centres in provinces. Negosyo centres are the most accessible points for MSMEs for information and training related to business finance and management. Mentor Me is a 13-week programme where entrepreneurs are trained in various aspects of business management. Risk management is an indispensable part of managing business operations. The Mentor Me curriculum could include a module about risk management, training attendees about risk transfer mechanisms, coping after disasters and building resilience in the business to mitigate potential risks.

A snapshot of the current Mentor Me curriculum is presented below:

Module No.	Topic
1	Entrepreneurial Mind-set and Values Formation
2	Marketing
3A	Product Development
3B	Market Growth and Expansion

4	Business Model Canvas
5	Operations Management
6	Supply and Value Chain
7	Human Resource and Organisation Management
8	Entrepreneurial Accounting and Financial Management
9	Taxation
10	Business Law

Table 17: Mentor Me Programme Modules

What should be the coverage limits for the product and at what price?

On an average, across the three regions - Micro enterprises reported an average loss of PHP 300,000; small enterprises reported losses worth PHP 600,000 and Medium enterprises represented losses worth PHP 17 million. It has to be noted that these losses are self-reported.

This is a good reflection of the different needs and scales of the three types of enterprises under consideration. As the approach being suggested here is that the MSMEs are keen on getting quick benefits in the face of a natural or business disaster, it can be argued that a lump sum cash benefit for business resumption need not be of the scale of the losses reported, especially for micro and small enterprises. For Medium enterprises, the needs are more complex and the scales are different and hence a more elaborate cover may be needed for them.

We recommend that business disruption insurance coverage for micro and small enterprises can be in the blocks of PHP 50,000, PHP 100,000 and the like subject to the needs and paying capacities of the small and medium enterprises.

For medium enterprises, given that their numbers are less and also the scale is different, the policies can be customised starting at PHP 5 million and above.

Pricing of course is a specialised actuarial domain. In the FGDs, the MSMEs showed a willingness to pay in the range of 3 to 5 % of the sum assured. However, the ultimate cost will be based on the actuarial calculations and the market considerations on the same.

The role of Micro Insurance in the National Disaster Risk Reduction and Management Framework

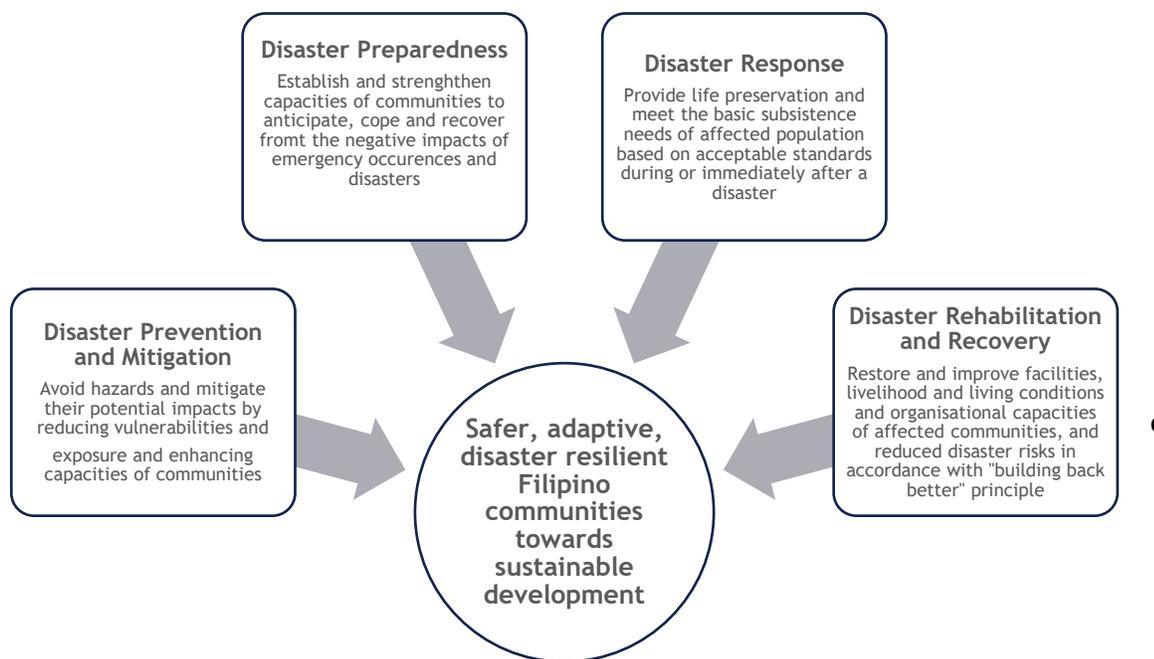
Disaster Risk Management Framework in the Philippines

The National Disaster Risk Reduction and Management Framework (NDRRMF):

Approved by the National Disaster Risk Reduction and Management Council (NDRRMC), the National Disaster Risk Reduction and Management Plan (NDRRMP) 2011 outlines a framework to ensure “*Safer, adaptive, disaster resilient Filipino communities towards sustainable development*”.

The goal of the NDRRMF is to bring about a paradigm change from a previously reactive DRRM to a more proactive DRRM by creating awareness and capabilities to increase people’s resilience and reduce vulnerabilities. In line with this vision the framework identifies four key priority areas. The NDRRMF has 14 objectives, 56 outputs and 93 activities.

Figure 3: Key priority areas of NDRRMF



The NDRRMF is a multi-stakeholder integrated action plan with budget allocations by relevant government line agencies. The following table details the lead and sub agencies involved in the implementation of the project.

Table 3: Lead and Sub-agencies involved in implementation of NDRRMF

Priority areas	Lead agency	Sub-agencies
Disaster prevention and mitigation	Department of Science and Technology (DOST)	OCD, Department of Environment and Natural Resources (DENR), Department of Public Works and Highways (DPWH), DOF, DOST
Disaster preparedness	Department of Interior and Local Government (DILG)	Philippine Information Agency (PIA), DILG, OCD
Disaster response	Department of Social Welfare and Development (DSWD)	Disaster Risk Reduction and Management Councils (DRRMCs), OCD, DSWD, Department of National Defence (DND), DILG, Department of Health (DOH), Local government units (LGUs)

Disaster rehabilitation and recovery	National Economic and Development Authority (NEDA)	OCD, DPWH, National Housing Authority (NHA), DOH, DSWD, Additional agencies to be determined based on the affected sectors
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Role of Insurance/microinsurance in Philippine's NDRRMF

Insurance or microinsurance does not figure explicitly in the DRM framework under the NDRRMP, it is relevant to at least two of the four priority areas of the framework, namely, *Disaster prevention and mitigation*; and *disaster rehabilitation and recovery*.

The disaster prevention and mitigation priority area has as one of its key goal to ensure *Communities have access to effective and applicable disaster risk financing and insurance*. The framework prioritises this access by promoting insurance schemes among production sector, supply sector, local communities and responders. On the achievement of this goal, the priority area also identifies a subsequent phase to “conduct research and develop new modalities for risk financing schemes and developing an advocacy and risk communication plan to encourage communities to avail of risk financing options.” The Disaster Rehabilitation and Recovery priority area similarly states the need to identify the needs and formulate plans to implement programs with the aim of ensuring the livelihood of the people affected by the disaster risk.

Hence, we see that the NDRRMF advocates use of insurance as a solution for financing disaster risks. Insurance is expected to finance a risk ‘after’ the event has happened. However, insurance still offers the opportunity to be prepared for the event ‘before’ it happens. In the same spirit, MSMEs having better access to insurance solutions against disaster risk will offer ‘peace’ of mind to them, with a robust financing option to finance the losses incurred in a prompt manner that helps them get back to their feet.

Making MSME Natural Catastrophe Insurance Work - Framework for Working holistically with partners

Financing risk alone is not enough to create a risk management ecosystem for the MSMEs, especially in the context of natural catastrophes. While the impact of a typhoon and a flood may be unavoidable in a lot of cases, through better planning the impact of such events can be softened and minimised. Hence, it is important to create a holistic approach to disaster risk management for MSMEs that are in regions perpetually exposed to natural disasters like the Philippines. A more sustainable disaster mitigation approach can be explored through a combination of key stakeholders, the possible framework is proposed as below, to be explored with partners, namely:

- a. National Disaster Risk Reduction and Management Plan (NDRRMP)
- b. DTI
- c. Insurance
- d. Supporting organisations like GIZ RFPI, Asia

National Disaster Risk Reduction and Management Plan

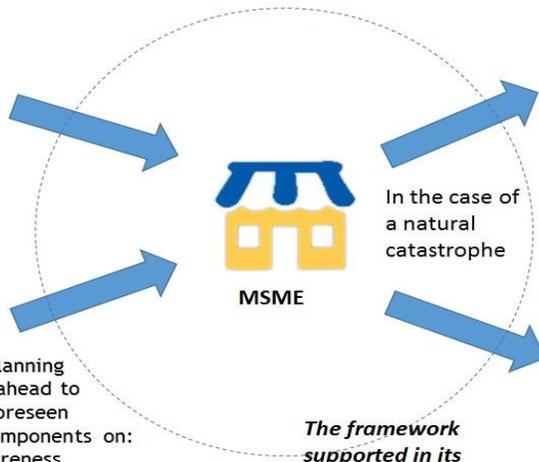
Each municipal authority offers:

- City wise risk plan
- Evacuation plans
- Early warnings of impending catastrophes

DTI - Business Continuity Planning (BCP)

DTI offers Business Continuity Planning trainings to the MSMEs, to plan ahead to minimise disruptions due to unforeseen circumstances. It can include components on:

- Insurance education and awareness
- Planning for safe storage of stock and raw materials
- Planning for safeguarding machines and assets in the face of disasters



The framework supported in its development and implementation by GIZ RFPI

Minimising Loss

By operationalising the disaster risk planning and the business continuity planning

- Responds to early warnings and ensures personal and family's safety
- Implements the BCP to
 - Minimise loss of assets
 - Minimise loss of inventory and stock
 - Understands where to get support (including insurance)
 - Acts upon the recovery plan to re-start the business plan

Financing loss through insurance (and other aid)

The MSME would be able to

- Make a quick claim and get a swift payout
- Make attempts at getting other support from government, aid agencies etc. to maximise support

Conclusion

MSMEs, owing to their heterogeneity and limited data availability around them, offer a great challenge for insurers to design adequate risk mitigation products for them. MSMEs, who face already a tough business environment are further made vulnerable by frequent natural disasters in a country like the Philippines.

Through our study, we have arrived the conclusion that while the MSMEs are varied in nature and operations, they ultimately see natural catastrophe as a risk that disrupts their business and their key demand becomes financial assistance that is quick and easily accessible so that they can start getting back to work. Most MSMEs say that self-financing is their best option to finance a risk like this, however not many are disciplined enough as yet to actually create a 'rainy day' fund for their businesses.

Based on this assessment, we propose a 'business disruption insurance coverage' to be offered that covers the 5 basic risks of - Typhoon, Floods, Fire, Theft and Work Place Accidents. The product would pay out a pre-defined benefit in the case of any of these risks disrupting their businesses. These risks are the "lowest common denominator" risk across all the MSMEs we surveyed and hence we are confident that a product that covers these 5 perils will have a traction with the MSMEs.

However, success of any such work will depend upon how the product is designed and delivered as well as how much effort has been made to educate the MSMEs of these benefits and assuring them that the pay-outs will be quick and easy when they need it the most, in the aftermath of a disaster.

Last, but not the least, GIZ RFPI, should work with partners like DTI towards a comprehensive risk mitigation framework for MSMEs against natural disasters, because risk financing is even more effective when you have taken steps to minimise risks and losses.

Annex 1 - Profiles of respondents across the three regions

Luzon - Profile of the MSMEs Surveyed

Chart 21: Vintage of MSMEs in Luzon

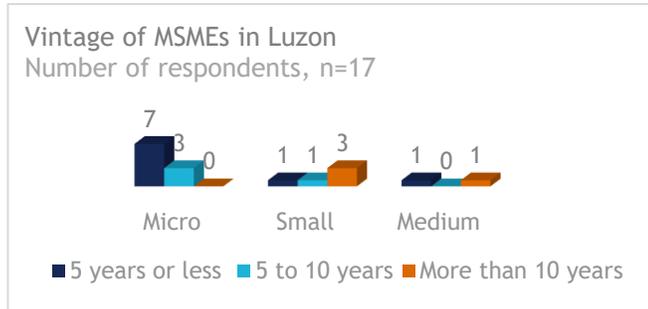


Chart 22: MSMEs by Gender of entrepreneur in Luzon

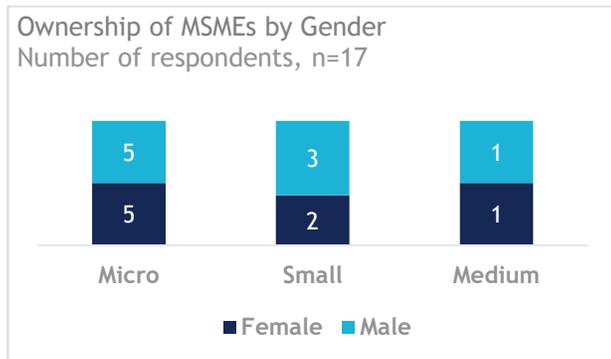


Chart 23: Entrepreneurs by education, in Luzon

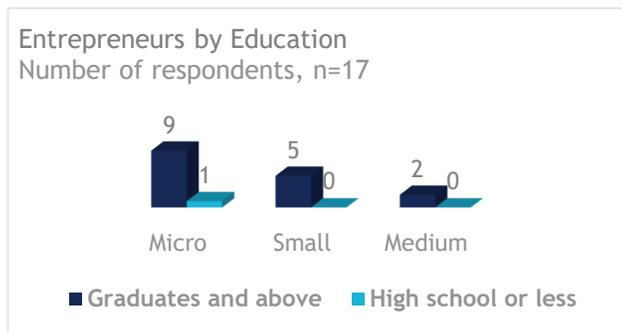
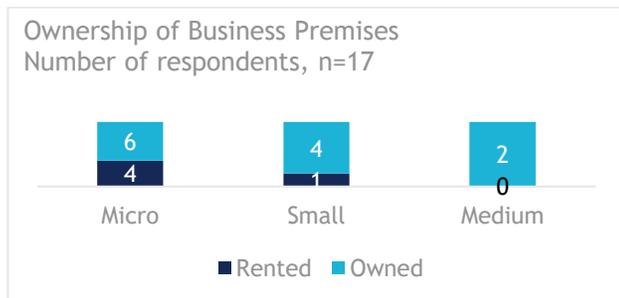


Chart 24: Ownership of business premises, in Luzon



Luzon is the largest and most populous island in the Philippines. It is ranked 15th largest in the world by land area. Located in the northern region of the archipelago, it is the economic and political centre of the nation, being home to the country's capital city, Manila, as well as Quezon City, the country's most populous city.

With support of the DTI, the research team conducted qualitative survey with 17 MSME respondents from Metro Manila and Quezon City, as well as organising 2 FGDs.

Profile of the MSMEs surveyed in Luzon

Of the 17 MSMEs surveyed in Luzon, 10 were Micro, 5 were small and 2 were medium as per the applicable definitions in the Philippines.

Vintage

Only 3 of the 10 micro enterprises were older than 5 years while 3 of the small enterprises were older than 10 years and just 1 medium enterprise was older than 10 years.

Ownership Characteristics

The ownership from a gender perspective was split almost 50-50 between females and men and all but 1 entrepreneur surveyed had a college graduation degree or higher educational qualifications.

Ownership of business premises

Most of the MSMEs surveyed were operating from owned business premises, with just 1 small and 4 micro enterprises running out of a rented location. This could be because most of the micro enterprises are family-oriented ventures and hence run out of family homes or land owned by the family of the entrepreneur.

Mindanao - Profile of the MSMEs Surveyed

Chart 25: Vintage of MSMEs in Mindanao

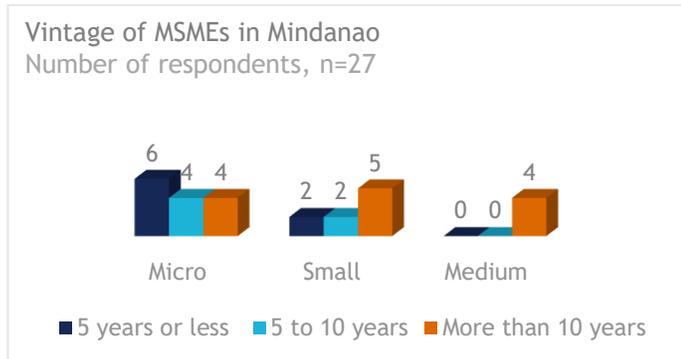


Chart 26: MSMEs by Gender of entrepreneur in Mindanao

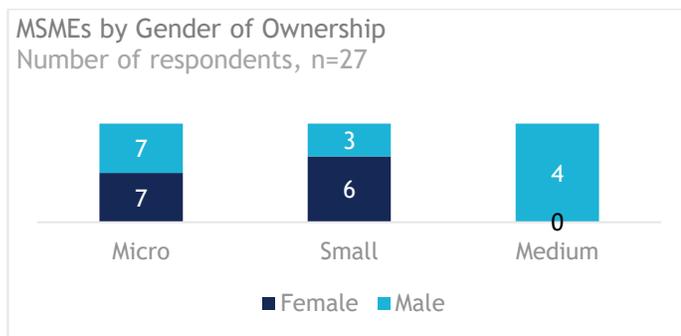


Chart 27: Entrepreneurs by education in Mindanao

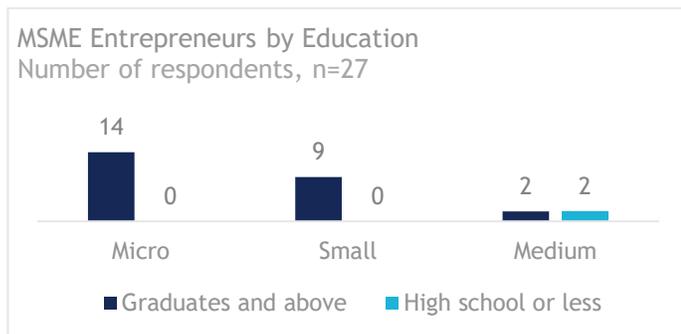


Chart 28: Ownership of business premises in Mindanao



Mindanao is the second largest island in the Philippines. Mindanao and the smaller islands surrounding it make up the island group of the same name.

With support of the DTI, the research team conducted qualitative survey with 27 MSME respondents from Davao city region as well as organising 2 FGDs.

Profile of the MSMEs surveyed in Mindanao

Of the 27 MSMEs surveyed in Mindanao, 14 were Micro, 9 were small and 4 were medium as per the applicable definitions in the Philippines.

Vintage

8 of the 14 micro enterprises were older than 5 years while 4 of the small enterprises were older than 10 years and all 4 medium enterprise was older than 10 years.

Ownership Characteristics

The ownership from a gender perspective was split almost 50-50 between females and men however in the medium enterprises the ownership was exclusively male. All except 1 of the entrepreneurs surveyed had college graduation as their highest educational qualification.

Ownership of business premises

While all of the 4 medium enterprises owned their place of work, majority of the small and micro enterprises are running from rented locations.

Visayas - Profile of the MSMEs Surveyed

Chart 29: Vintage of MSMEs in Visayas

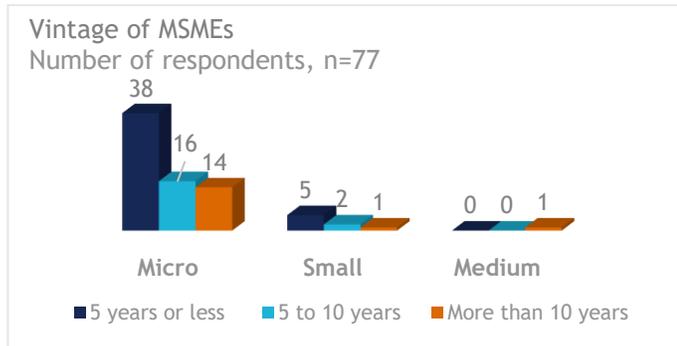


Chart 30: MSME by Gender of entrepreneur in Visayas

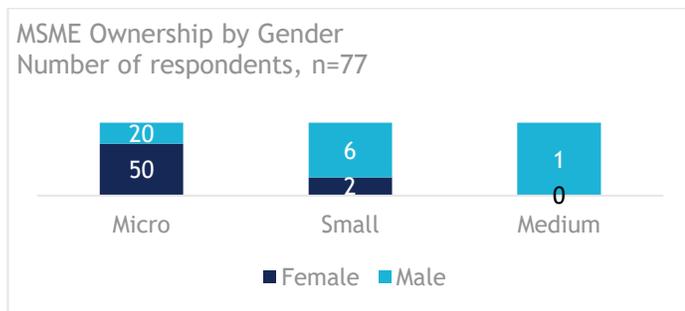


Chart 31: Entrepreneurs by education in Visayas

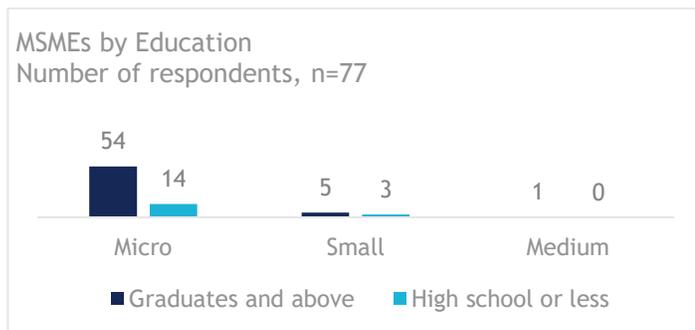
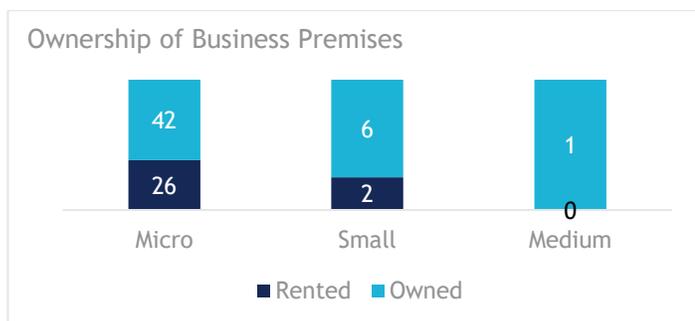


Chart 32: Ownership of business premise in Visayas



Visayas is one of the three principal geographical divisions of the Philippines, along with Luzon and Mindanao. Located in the central part of the archipelago, it consists of several islands, primarily surrounding the Visayan Sea, although the Visayas are also considered the northeast extremity of the entire Sulu Sea

With support of the DTI, the research team conducted qualitative survey with 77 MSME respondents from Tacloban City, Leyte and Samar areas as well as organised 2 FGDs.

The relatively large sample size from Visayas is attributed the workshop conducted by GIZ and DTI in Tacloban City on 25th June, that was attended by a strong number of MSMEs of the region.

Profile of the MSMEs surveyed in Visayas

Of the 77 MSMEs surveyed in Mindanao, 68 were Micro, 8 were small and just 1 medium enterprise as per the applicable definitions in the Philippines.

Vintage

Almost 70% of MSMEs surveyed here were less than 5 years old, while the small enterprises older than 5 years were just 3 and the medium sized enterprise was older than 10 years.

Ownership Characteristics

The ownership from a gender perspective amongst the micro enterprises over 60% female, while most small and the medium enterprises were male owned. Most entrepreneurs were college graduates or more through educational qualifications.

Ownership of business premises

Majority of the MSMEs in Visayas operate through owned premises, mostly because most micro businesses were small family units.