



## interview to **Enrique Clemente III**

President and CEO MAPFRE Insular  
The Philippines



Manila Bay

Enrique Clemente III or EC3 as he is known to his colleagues has been in the financial sector, more particularly the non-life insurance industry, for more than three decades.

He was involved in all aspects of operations in general insurance until he assumed the Presidency of MAPFRE Insular.

EC3 is the product of a Christian Brothers' education and obtained his degree in Business Administration from the De La Salle University in Manila.

In the past decade, MAPFRE Insular has gained ground in the Philippine setting and is now one of the top companies in the Philippine insurance industry.

# *“In this financial crisis, Asia has had a major advantage”*

## **How would you outline the insurance Market in the Philippines?**

Licenses or Certificates of Authority (CA) of regulated insurance entities expire every June 30 of each year. For the licensing period 2008-2009, a total of 121 insurance companies were granted licenses to transact business in the country. These are composed of 3 composite companies, 32 life companies, 85 non-life companies and 1 reinsurance company. Also issued during the year, were licenses/accreditations of 49,781 insurance intermediaries and other technical support entities. The licenses include 40,865 ordinary agents, 233 general agents and 7,683 variable agents and 113 brokers.

The total premiums generated by both life and non-life insurers amount to about PHP 100 Billion annually with total life and non-life premiums computed at about 1.05% and 0.95% of the GDP and GNP, respectively. The combined assets of life and non-life sectors amount to about PHP 500 Billion with the bulk of investments in government securities. The ratio of the insurance business in the Philippine market is 60:40 for the life and non-life sectors, respectively.

## **What are the most common insurance products sold in the Philippine Market?**

Traditional insurance products continue to

account for a good portion of the life portfolio but variable link products have been gaining ground over the years. For the non-life sector, Property and Motor account for more than 60% of the portfolio with profitable loss ratios over the years. The official loss ratio for underwriting year 2009, however, has not yet been released.

For non-life, the bulk of the Motor business is accounted for by private and commercial vehicles with own damage, theft and acts of nature coverages. Liability premiums, including compulsory liability, account for the balance.

For Property, industrial and commercial enterprises account for a good portion of the premiums with retail and residential business accounting for the balance.

For the Casualty line, Personal Accident (PA) and health would be the principal products sold with micro PA products gaining ground as these are sold through various intermediaries all over the country.

Pre-need products, like educational and memorial plans have experienced a decline over the past couple of years but sales are again slowly picking up. This sector, which was directly supervised by the Securities and Exchange Commission, will now be under the supervision of the Office of the Insurance Commissioner.

A new branch or product that could evolve in the coming years is "Title" insurance which was recently introduced in the Philippine Congress. This insurance, which is required in North America, is in connection with real estate transactions.

**Do you find any points in common with the giant neighbor Japanese market? What are the main surrounding markets where The Philippines is more involved?**

Similar to the Philippine insurance industry, the Japanese market is deregulated. Developed and developing countries undertook financial liberalization programs in the 1990s to improve competitiveness and efficiency. There was an easing of restrictions on both domestic and foreign entry in Southeast Asia in the second half of the 1990s. Deregulation has led to the entry of new players (including

foreign companies) and mergers and acquisitions.

Based on 2008 data, Japan's major lines of business are Motor (59.5%) and Fire (15.9%). These two lines are the Philippines' top major lines as well. Fire contributed 32.65% and Motor generated 31.69% of the non-life insurance industry's gross premiums in 2008. Motor and Fire are also the top major lines in Thailand (60% Motor, 7% Fire) and Indonesia (29% Motor and 34% Fire).

Both markets are dominated by a few top companies. In Japan, 85% of market is controlled by 17 companies out of 51 players. There is a plan for these 17 companies to consolidate into three holding companies. This situation may lead to an oligopoly in the Japanese non-life insurance industry. On the other hand, the Philippine market is dominated by the top 20 out of 85 licensed non-life



companies in 2009. They account for 80% of the industry's total gross premiums written. For Life, the top 5 account for about 80% of the business.

In contrast with the Japanese market where insurance penetration is about 2.2%, the Philippines' penetration average is much lower when compared to Japan. Other Asian countries have a penetration ranging from 0.6% (India) to a high of 2.9% (Taiwan). The Philippines is similarly situated as other Southeast Asian countries. Singapore, Malaysia, and Thailand register penetration rates of about 1.1%, 1.6%, and 1.7% respectively. The underdeveloped insurance industry in most of Southeast countries may be attributed primarily to low demand as a result of low levels of income.

A favourable tax structure for the industry is a key driver of insurance market development.

The Philippines is one of the most heavily taxed markets where Fire policies are levied a 27% tax and Motor policies a 25% tax. The Philippine Life insurance industry has recently successfully lobbied for the enactment of a law to reduce taxes on life insurance policies. This reduction is expected to increase affordability and penetration of the life insurance market.

The largest distribution channel in Japan is the agency system which accounts for 93% of the direct premiums written in the market. This is in contrast to the Philippines where close to 50% of the industry's total non-life premium production is generated by insurance brokers.

Japan, Philippines and other Asian countries also utilize other distribution channels such as direct marketing (including internet sales) and Bancassurance.

Southeast Asian non-life insurance industries such as the Philippines, Malaysia, Indonesia, and Thailand are in varying stages of implementing the Risk-Based Capital adequacy framework. On the other hand, Japan is observing the Solvency Margin criteria for regulation.

**In 1997, the Asian crisis in the insurance markets was an issue; did it really finish or has it overlapped with the present financial crisis in the Western countries?**

The 1997 Asian Financial crisis started in Thailand with the financial collapse of the Thai baht and caused a financial contagion to other Asian countries. Indonesia, South Korea, and Thailand were the worst-hit countries. By 2001, Thailand's economy had recovered. The increasing tax revenues allowed the country to balance its budget and repay its debts to the IMF in 2003, four years ahead of schedule. The Thai Baht continued to appreciate to 33 Baht to the Dollar in December 2009.

The 1997 Asian financial crisis ended years before the present financial crisis in Western countries started. This rebound did not happen spontaneously, but came about as a result of steadfast policy implementation by the affected countries and large-scale financial support from the international community, especially under IMF-supported programs for Indonesia, Korea, and Thailand.

The present financial crisis in Western coun-

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Rice terraces in the mountains of the Philippines

**The present financial turmoil has highlighted the need to improve the regulatory framework, foster good corporate governance and enhance the quality of our markets**

tries was triggered by the subprime mortgage crisis in the US in late 2006. This sent shockwaves throughout financial markets around the world including Asia. Asia's export-dependent economies suffered badly when consumers and industries in the US and Europe cut down on their purchases. The financial turmoil has exposed excessive risk-taking by financial institutions. It has also highlighted the need to improve the regulatory framework, foster good corporate governance, and enhance the quality of our markets. Heightened monitoring of financial and solvency positions of insurance companies will increase confidence in the sector as well as protect the insuring public.

In this financial crisis, Asia has had a major advantage. Most Asian banks steered clear of the complex financial instruments that caused some Western banks to collapse. Asian governments and companies were in relatively sound financial health, having repaired their finances only recently after the Asian financial crisis of 1997-98.

**Do you think that a Regional Hub for financial services could be created in the Philippines, in the same way as Singapore or Labuan?**

A Regional Hub for Financial Services could be created in the Philippines similar or as an alternative to Singapore's and Labuan's. It would take legislative action to do it. Creating such a Financial Hub with tax breaks and incentives would be nothing new to the country as the Philippine Government has done this for EcoZones or Export Processing Zones. Obtaining sponsorship from Congress would not likewise be difficult since it has long been recognized that such special zones and the like are good for the country as they spur economic growth, generate employment and enhance the image of the country as a global economic player. The question really is whether or not it would be necessary at this point in time, taking into consideration the financial climate and the proximity of other dominant financial centers.

**What is the level of penetration of insurance of natural hazards in The Philippines? What is the greatest "market loss" following a catastrophic event? Does reinsurance play a main role in natural hazards insurance in The Philippines?**



Mount Mayon volcano on the island of Luzon, Philippines

Industry Figures show that only about 11% of the property risks written have been insured against natural hazards. For Motor, there is unfortunately no available data but an educated estimate would be about 10% to 20%.

The greatest market loss following a catastrophic event is the recent massive and widespread flooding brought about by tropical storm Ketsana (local name Ondoy).

The property losses adversely impacted on the real estate value of properties in the affected areas. Motor losses are further aggravated by the inability of certain car dealers to deliver spare parts for the repair of the damaged vehicles, at times putting insurance companies in a losing predicament of declaring "total loss" claims. Insurance companies have agreed to charge policyholders 0.5% for the Motor extension or to be able to avail of the additional coverage for natural perils or so-called "Acts of Nature." Because of the Ketsana catastrophe, motor vehicle owners now appreciate the importance of securing this additional coverage extension.



Actual figures are not yet available but the combined insured losses for Property and Motor have been placed between PHP 12 to 15 Billion by the Philippine Insurers and Reinsurers Association (PIRA) with Property losses accounting for 90% thereof.

Reinsurance plays a major role in natural hazards insurance in the country. Firstly, local players have relatively low retention capacities. On a risk-to-risk basis, the larger accounts are generally the ones who require cover for natural perils. If there is no reinsurance capacity available, insurance could be limited to co-insurance arrangements. Secondly, direct insurers have to be wary with the risks aggregates they accumulate. Without enough CAT protection, a prudent company would have to go slow or be more selective in accepting cover against natural perils.

**The images of Pinatubo volcano eruption in 1991 and lahars triggered afterwards are still in our minds. Is it possible to remember**

**any lessons learned following that crisis? What would be necessary to reduce loss of lives, damage and economic loss regarding natural perils in your country?**

The Mount Pinatubo eruption was one of the most devastating calamities the Philippines had ever experienced, killing over 800 people and destroying thousands of homes. The effect was of a global magnitude as well because as scientists had revealed, the eruption decreased the temperature worldwide over the next few years.

What cannot be ignored is the fact that man is really powerless to stop these acts of nature and can only find ways of avoiding possible loss of lives and properties. In the case of Mt. Pinatubo, the ensuing rampage of lahar flows triggered by rains and storms that came even years after brought more devastation to the people affected than the eruption itself disrupting lives, taking lives or livelihood, and costing millions of pesos of rehabilitation efforts that seemed to drag on. It pays to have a disaster-control and prevention plan that

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can only be made successful through the joint efforts of the government, the local residents, and socio-civic organizations. Regular campaigns and information dissemination through training and use of mass media need to be done in order to make the people aware of and appreciate the disaster preparedness plan. This should include a disaster prevention advocacy that can touch on a wide range of areas from waste management, clean air program, to improving livelihood and community. In this way, there is a serious and conscious effort to mitigate the impact of natural calamities whenever they strike. While it took a few years to pick up the pieces, Central Luzon which was badly affected by Pinatubo eventually rebounded and recovered well and is now a very strong economic region.

**Strong typhoons very frequently slam into The Philippines, but they do not always cause economical and insured losses even if hitting populated areas. What do you think is if the key factor for high insured losses following natural events?**

Serious economical and high insured losses occur when a typhoon/weather disturbance hits the main island of Luzon, more specifically Metro Manila, Central Luzon and Southern Luzon where there is a big concentration in terms of population and economic activity. The bulk of insurance premiums come from the island of Luzon and major insurance risks are, therefore, situated on the Main Island. In addition to this, the paths of the more powerful typhoons normally veer to Luzon, thereby causing major destruction.



Typhoon over the Pacific Ocean

**The Philippine Archipelago, because of its situation and topography, is threatened by typhoons, earthquakes, floods and volcanic eruptions, at least. How could you rate the level of knowledge of the local scientific community and authorities on the risk management?**

In a country such as the Philippines that is prone to the mentioned natural hazards, the local scientific community, borne out of necessity, has developed a high level of knowledge and awareness on Risk Management.

At the forefront of Risk Management in the country concerning natural hazards for the local scientific community and authority are the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA), the Philippine Institute of Volcanology and Seismology (PHIVOLCS), and the National Disaster Coordinating Council (NDCC).

PAGASA is the government agency under the Department of Science and Technology (DOST) that does the weather forecasting, flood forecasting, astronomical observations, and time service. The agency follows the international warning systems that provide the necessary and timely information to the public concerning atmospheric disturbances that can affect the country. Aside from pro-

actively interacting with the media in information dissemination, it maintains a website accessible to the public from where real time or up-to-date information can be obtained as data are gathered and analyzed by its team of weather specialists and hydrologists. One of its programs to improve risk awareness, preparedness and mitigation is Hazard Mapping and Vulnerability Analysis. From information and observational data gathered on meteorological and hydrological hazards in terms of nature, frequency and magnitude, and then relating them to human settlement and its built environment (assets), the agency presents its analyses in the form of hydrometeorological maps that show the places and frequency of occurrences of hydrometeorological hazards such as tropical cyclones, flooding, storm surge, extreme wind and extreme rainfall and their impact to lives and properties. These studies and maps are used in the development and implementation of risk control, disaster preparedness and mitigation plans and programs by the government agencies and non-governmental organizations (NGO).

PHIVOLCS, on the other hand, is the service institute of the DOST, which is principally mandated to mitigate disasters that may arise from volcanic eruptions, earthquakes,

### **Why was the flood event last September 2009 following tropical storm Ketsana especially catastrophic?**

Last September 2009, tropical storm Ketsana passed through the Luzon Island and brought about the heaviest recorded rainfall to Metro Manila and Calabarzon region despite its only moderate winds. Rains that lasted around 9 hours caused severe flooding which forced President Gloria Macapagal-Arroyo to declare a "state of calamity" in most of Luzon, with 80% of the Metropolis submerged in floodwaters. According to the weather bureau, Ketsana dumped in those hours, a total of 410.6 millimeters (16 inches) of rain, which was greater than the average monthly rainfall usually experienced by the country and much more than "Katrina". Flood water levels

reached a record of 20 feet high in rural areas. The flooding was further aggravated by the release of waters from some of Luzon's dams and overflowing of rivers. Power lines were cut and not completely restored until the places were free of floodwater. With the onslaught of Ketsana, the government reported at least 500 deaths and more than 300,000 people displaced. Industrial, commercial, residential, and agricultural losses were substantial, especially as the waters rose quickly and most of the areas affected remained submerged for a period of 2 days to even months. The flooding affected all socio-economic classes of society.

### **How did MAPFRE Insular help coordinate the relief efforts, both on a corporate level,**

tsunami and other related geotectonic phenomena. It is the agency responsible for the development and dissemination of information of such natural hazards. It therefore handles earthquake and volcano monitoring and mapping, active faults mapping, ground deformation studies, and developing and implementing the necessary warning and alert systems.

The NDCC is the government's top and overall coordinator of the country's disaster preparedness programs, disaster operation and rehabilitation efforts undertaken by the government and private sector. It is headed by the Secretary of National Defense and assisted by the heads (Secretaries) of 18 other government agencies or departments which include that of the Armed Forces of the Philippines, Office of the Civil Defense, and that of the Philippine National Red Cross. It operates through its member agencies and through its local networks from its regional down to its local (barangay) coordinating councils.

As proof of the country's awareness in risk management on natural hazards, an act was recently passed in Congress known as The Philippine Disaster Risk Reduction and Management Act of 2010. Said act defines the roles of specified branches of government tasked to respond in times of disaster and

institutionalizes the national disaster risk reduction and management plan and the appropriate funding thereof.

<http://www.dost.gov.ph/>  
<http://www.pagasa.dost.gov.ph/>  
<http://www.phivolcs.dost.gov.ph/>  
<http://www.ndcc.gov.ph/>  
[http://en.wikipedia.org/wiki/Typhoon\\_Ketsana](http://en.wikipedia.org/wiki/Typhoon_Ketsana)



Crater of the Pinatubo volcano

**liaising between FUNDACION MAPFRE and the local NGO's, and also on a more personal level, what was the involvement of the employees.**

MAPFRE Insular was very pleased and grateful with the generous assistance given by Fundación MAPFRE which enabled us to provide relief goods to people affected by typhoons Ketsana of September 2009 and Parma in October that year. Upon learning of this donation, we started coordinating with NASSA-Caritas Philippines Foundation through the Sisters of St. Paul, for the immediate preparation of the relief goods. NASSA-Caritas is a local Catholic organization offering social services to the marginalized. The funds from the Fundación were gradually released to NASSA-Caritas to be able to purchase "family kits" containing basic food and personal items which were then packed in thousands of sacks that bore the name of Fundación MAPFRE. MAPFRE Insular helped select the goods to be included in the sacks.

More than a hundred MAPFRE Insular employees and agents volunteered to help Caritas in the packing of goods which took weeks to

do, and personally distribute them to the 8,500 families in the affected areas of Calamba, Muntinlupa, Benguet, La Union and Pangasinan.

The Filipino values of "pagtulong" and "damayan" (giving help and empathizing) became much evident in the willingness of employee-volunteers to be a part of the relief efforts. Their working under uncomfortable physical conditions in order to prepare and deliver the goods on more than one occasion was just an indication of their compassion for the victims.

As for the MAPFRE Insular employees who were victims themselves, it was heartwarming to see how their co-employees initiated the raising and pooling of funds from their own pockets and across the organization in order to buy relief goods for the victims and give some cash to tide them over.

The calamity brought people together and gave us the chance to extend our hand in the best way we could to those in need.

**After this experience, how do you think, from a corporate point of view, that Contingency Plans could be enhanced when catastrophic events take place to assist employees, clients and population in general?**

MAPFRE Insular will continue with its commitment of helping would-be employee-victims by extending assistance in various forms. Information campaign through our intra-office network, newsletter, and employee forums will also timely feature relevant topics or programs that would touch on disaster-prevention or coping with disasters. A similar information campaign using available media (company website, flyers, newspapers and client newsletter) will be advocated, up to the extent of educating them on how to preserve property (residences, establishments, motor vehicles) especially should they be affected by catastrophes. Likewise, we will ensure that the claims servicing team would be beefed up in times of anticipated large volume of claims during calamities.

Finally, as part of MAPFRE Insular's corporate social responsibility, we will continue to do our share in helping uplift the quality of life by partnering with agencies (as how we did it with NASSA-Caritas) in community assistance-activities.

Traditional fishing boat

