Philippines to probe GSIS reinsurance contracts

By Nick Ferguson

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The Philippines is launching an inquiry into reinsurance contracts awarded to domestic companies by the Government Service Institution System.

Pantaleon Alvarez, the speaker of the House of Representatives, called on the House Committee on Government Enterprises and Privatisation to "immediately conduct a comprehensive investigation" into GSIS's practices.

"The GSIS may be awarding reinsurance contracts to unqualified companies, which may put the government at a more serious financial difficulty in case the reinsurance claims are not awarded," he told local media. "There are other insurance providers who have more capability in terms of capital and experience to handle reinsurance needs of the GSIS."

GSIS provides retirement schemes to all government employees and insurance coverage for government assets. In August, it launched a parametric catastrophe risk insurance programme supported by the World Bank and the UK Department for International Development. The programme provides the Philippine peso equivalent of US$206 million in coverage against losses from major typhoons and earthquakes to national government assets, and to 25 participating provinces against losses from major typhoons.

Alvarez's claims are a reminder that the challenges of closing the protection gap in emerging countries, as discussed in our other Insights article this week, are not just about insurance. Issues related to weak governance, which are a defining feature of poor countries, can be difficult to overcome.

It is not clear what Alvarez's specific accusations are. In the resolution he introduced, he seems to acknowledge that GSIS is awarding reinsurance contracts in compliance with the competitive requirements it operates under, but complains that "the existing rules and policies unduly limits and restricts GSIS from obtaining reinsurance contracts with the best possible value".

The resolution continues: "There are also concerns whether the domestic reinsurance companies possess the necessary capitalisation and financial reserves which would ensure that they comply with their reinsurance obligations should the need arise."

These are puzzling statements. GSIS's competitive bidding procedures are laid out by the government and are relatively transparent — all of the documents related to the process for each contract are available online.

And it is not obvious what Alvarez is implying by suggesting that the agency could get a cheaper deal, particularly when he also suggests that the existing reinsurers may lack sufficient capital. If true, this would presumably be a matter for the regulator, the Insurance Commission, which has not yet commented on the proposed investigation.

Almost all of the contracts awarded by GSIS this year have been to four local companies: UCPB Gen, Malayan Insurance, Pioneer Insurance and Surety, and FPG Insurance. And for the major contracts these companies have sourced retrocession from global reinsurers including Swiss Re, Munich Re, Hannover and Allianz Re.

Alvarez, who was charged with graft in relation to the infamous construction of Terminal 3 at Manila’s airport, is a close ally of the president, Rodrigo Duterte, and is a controversial figure in Philippines politics.

Poor countries are not poor simply because they lack good market-based solutions. The reality is that markets struggle to operate efficiently in an environment where the rule of law and institutions are weak. It remains to be seen whether GSIS has acted improperly or is being unfairly accused, but the case highlights the problems faced in many emerging markets.