

# Regulatory Framework



## 1. Background

The development of the Philippine Microfinance Industry proved that the provision of formal financial services, particularly savings and credit, to the poor is a viable and sustainable activity. A large number of private financial institutions, notably rural, cooperative and thrift banks, cooperatives and non-government organizations, including commercial banks acting as wholesaler of microfinance funds, are now actively engaged in providing the poor greater access to micro credit to finance their livelihood and small business activities. This development presented a vast opportunity for the poor to improve their lives, increase their income and build on their assets. However, it has been realized that micro credit does not protect the low-income from unforeseen and unfortunate events that may adversely affect their livelihood, lives and families.

The poor, compared to the other sectors, greatly need risk protection against death, injury and illness, loss of property, and other contingent events. Without any risk protection, the poor are very vulnerable and susceptible to unforeseen circumstances that will prevent them and their dependents from improving their lives and overcoming poverty once it happens.

The government, private sector insurance providers (including other entities providing insurance-like and

other similar products and services) and microfinance institutions (MFIs) are becoming increasingly aware of the need for additional financial services for the poor, i.e. insurance products for risk protection that are timely, reliable, dependable, affordable and accessible. Current delivery mechanisms of insurance products will have to be improved at the least cost while microinsurance products will have to be developed to be affordable. These will entail innovations and improvements on the varied insurance modalities, delivery channels and schemes to meet this end while at the same time protecting the disadvantaged against unreasonable, fraudulent and unscrupulous acts.

This framework outlines the government's policy thrusts and direction for the establishment of a policy and regulatory environment that will encourage, enhance and facilitate the safe and sound provision of microinsurance products and services by the private sector. It will also identify and promote a system that will protect the rights and privileges of those who are insured. Ultimately, trust and confidence on the insurance industry and other providers of insurance-like and other similar products as a whole will be enhanced.

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*The Microinsurance Regulatory Framework is a joint effort of the members of the Technical Working Group organized by the Department of Finance and supported by the Asian Development Bank - Japan Fund for Poverty Reduction (ADB-JFPR). The members of the TWG are: DOF-National Credit Council (DOF-NCC), Insurance Commission (IC), Cooperative Development Authority (CDA), Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), National Anti-Poverty Commission (NAPC), Chamber of Mutual Benefit Association, Inc. (CHAMBAI), RIMANSI Organization for Asia and the Pacific, Inc. (RIMANSI), Coop Life Insurance and Mutual Benefit Services (CLIMBS), Cooperative Insurance System of the Philippines (CISP), Philippine Life Insurance Association (PLIA), Philippine Insurers and Reinsurers Association (PIRA), Microfinance Council of the Philippines (MCPI), German Technical Cooperation (GTZ) and Asian Development Bank (ADB).*



## 2. The Vision: Appropriate Risk Protection for the Poor

The National Strategy for Microfinance articulated the vision “... to have a viable and sustainable private micro (financial) market with the government providing a supportive and appropriate policy environment to the market. The objective is to provide access to financial services (*microinsurance included*) to the majority of the poor households and microenterprises”.

In accordance with this, a viable and sustainable private insurance market for the poor is envisioned. This will be achieved using the following key strategies:

- 2.1 Increased participation of the private sector in the provision of microinsurance services;
- 2.1 Establishment of an appropriate policy and regulatory environment for the safe and sound provision of microinsurance by the private sector;
- 2.3 Mainstreaming of existing informal insurance, insurance-like, and other similar activities/schemes: and
- 2.4 Institutionalization of financial literacy (learning/ education) program that will highlight the importance of microinsurance, the applicable rules and regulations, the duties and responsibilities of the providers, and the consumer rights of the insured.

## 3. The Scope of the Regulatory Framework

This regulatory framework covers the provision of insurance, insurance-like and other similar activities as may be defined by the concerned regulatory bodies that cover the risk protection needs of the poor by the private sector. It does not cover social insurance schemes and risk protection programs administered and implemented by government<sup>1</sup>.

## 4. The Objective of the Regulatory Framework

This framework will provide a policy and regulatory environment that will facilitate the participation of the private sector in providing risk protection for the poor and ensure that the rights and privileges of the insured poor will be protected and promptly acted upon. The framework also gives insurance providers flexibility to put in place the necessary safeguards against fraudulent and scrupulous claims.

Specific regulatory concerns will be addressed to attain this objective and, given a huge informal market for microinsurance<sup>2</sup>, the framework will provide a formalization path for existing informal providers to transform themselves into formal microinsurance providers.

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<sup>1</sup> Social insurance programs such as those administered and implemented by PhilHealth, Government Service Insurance System (GSIS), and Social Security System (SSS), even when provided to the same clients (i.e. the poor) are not covered in this framework.

<sup>2</sup> In a study entitled “Making Insurance Markets Work for the Poor: Microinsurance Policy Regulation and Supervision – Philippines Case Study”, it was reported that as of 2006, the microinsurance market in the country covers an estimated 2.9 million adults (about 5.4 percent of the adult population), almost half of which (41 percent), are provided by the informal market. Informal micro insurance market is comprised of registered and unregistered institutions that provide insurance, insurance-like, and other similar products and services to the poor without any license from the concerned regulatory authority.



## 5. What is Microinsurance

The term “microinsurance” refers to the insurance, insurance-like and other similar business activity of providing specific products and services that meet the needs of the poor<sup>3</sup> for risk protection and relief against distress, misfortune or contingent event. Since microinsurance products and services are intended to meet the risk protection needs of the low-income sector, affordability of premium payments is a major consideration. To ensure this, the nature and features of a microinsurance product are considered in this framework to minimize and limit underwriting risks<sup>4</sup>.

Microinsurance is therefore defined as follows<sup>5</sup>:

**5.1** *Microinsurance* is an activity of providing specific insurance, insurance-like and other similar products and services that meet the needs of the low-income sector for risk protection and relief against distress, misfortune and other contingent events. This shall include all forms of insurance, insurance-like and other similar activities, as may be defined by concerned regulatory bodies, with the following features:

**5.1.1** *Premiums, contributions, fees or charges are collected/deducted prior to the occurrence of a contingent event; and*

**5.1.2** *Guaranteed benefits are provided upon occurrence of a contingent event.*

**5.2** *Microinsurance product* is a financial product or service that meets the risk protection needs of the poor where:

**5.2.1** The amount of premiums, contributions, fees or charges, computed on a daily basis, does not exceed five (5) percent of the current daily minimum wage rate for non-agricultural workers in Metro Manila<sup>6</sup>; and

**5.2.2** The maximum sum of guaranteed benefits is not more than 500 times the daily minimum wage rate for non-agricultural workers in Metro Manila<sup>7</sup>.

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<sup>3</sup> This also refers to and is used interchangeably with low income, disadvantaged, marginalized or the less privileged sectors of society.

<sup>4</sup> When underwriting risks are low, regulatory requirements may be kept to a minimum, making it possible for a greater number of market players (small ones included) to provide the needed risk protection for the poor.

<sup>5</sup> The new definition of microinsurance is based on the definition provided for in Insurance Memorandum Circular (IMC) No. 9 -2006. The Technical Working Group on Microinsurance reviewed and revised the definition of microinsurance product to consider developments in the market for risk protection among the poor.

<sup>6</sup> The five percent (5%) ceiling for premium for microinsurance considers improved efficiency in the Insurance Industry resulting from better and improved mortality rates and technology and the increased number of insured, thereby, spreading risks to a greater number and lowering costs of insurance delivery.

<sup>7</sup> The maximum coverage can provide 16.5 months (500 days) of lost income resulting from any unforeseen or contingent event happening to the insured. This is deemed sufficient to augment the needs of the family of the insured. This insurance coverage can be provided with the maximum 5% ceiling.



5.3 All microinsurance contracts shall clearly state the benefits and terms of coverage. In this regard, all microinsurance providers shall ensure the following:

5.3.1 The contract provisions can be easily understood by the insured and printed in English and/or Pilipino ;

5.3.2 The documentation requirements are simple; and

5.3.3 The manner and frequency of collection of premiums, contributions, fees or charges coincide with the cash flows of the insured and are not onerous.

5.4. The key features of a microinsurance contract are provided for in Appendix 1 of this Framework.

5.5 The regulatory authorities shall issue appropriate circulars prescribing the features of microinsurance products and simplified microinsurance contracts. Existing documentary requirements shall likewise be reviewed and revised when needed to make sure that the requirements are applicable to the low-income sector.

## 6. Who Can Provide Microinsurance Contracts

6.1 Insurance, insurance-like, and other similar activities that satisfy the conditions set forth in Section 5 and providing a microinsurance product **shall only be undertaken by entities registered and licensed by appropriate government regulatory bodies.** These entities shall include but are not limited to any of the following:

6.1.1 Commercial Life Insurance Companies

6.1.2 Commercial Non-life Insurance Companies

6.1.3 Mutual Benefit Associations

6.1.4 Cooperative Insurance Societies

6.1.5 Pre-need Companies

6.1.6 Health Maintenance Organizations

6.2 These entities may offer bundled microinsurance products (e.g. life, non-life insurance, health maintenance and/or pre-need products) provided that:

6.2.1 The bundled product only includes microinsurance products.

6.2.2 The contract specifies that the lead microinsurance provider shall assume the liability for the bundled microinsurance products or services.

**6.3 Mutual Benefit Associations (MBAs) are only allowed** to provide insurance coverage to their members and their immediate family members as provided for in Item IA of Appendix 1. The **Cooperative Insurance Societies can only serve** the insurance needs of their primary cooperative member-owners, their individual members and their immediate family members as also provided for in Item IA of Appendix 1. Both entities are not allowed to transact insurance business with the general public.

**6.4 Cooperative Insurance Societies (CIS) are not allowed** to serve the insurance needs of other cooperatives that are not member-owners of the CIS. A CIS serving the insurance needs of non-member cooperatives and the general public shall be required to get a commercial insurance license from the Insurance Commission.

**6.5 All entities providing microinsurance, as defined and described in Section 5, that are not licensed by the appropriate regulatory body but are still going to provide microinsurance products shall formalize their operations within one (1) year from the issuance of the appropriate circular by the concerned regulatory authority, using the following options:**

6.5.1 Partner with licensed microinsurance providers as enumerated in Section 6.1;

6.5.2 Buy a microinsurance product through a licensed agent or broker; or

6.5.3 Join an existing MBA or CIS.



**6.6. Entities may also opt to organize their own microinsurance entity, in which case they shall secure appropriate license within two (2) years from the issuance of the appropriate circular by the concerned regulatory authority.**

Government regulatory bodies shall collaborate and exchange information to ensure that informal insurance and insurance-like activities are under the coverage of the regulatory environment in order to minimize regulatory arbitrage among regulated entities.

## 7. What is Required of Microinsurance Providers

### 7.1 Prudential Requirements

7.1.1 All entities registered and licensed to provide microinsurance products as indicated in Section 6.1 shall comply with the prudential requirements of the concerned regulatory authority.

7.1.2 Regulatory requirements for products approval, solvency, capitalization/guaranty fund, net worth, investments and reserves shall be complied with by all entities providing microinsurance products.

7.1.3 Considering the limited risks associated with microinsurance, concerned regulatory authorities shall create a special regulatory space for microinsurance providers as follows:

**7.1.3.1 Lower guaranty fund requirement for MBAs wholly engaged in microinsurance.** Guaranty fund requirement for these entities shall be lower than what is required for regular MBAs. The guaranty fund shall, however, be fully funded by the members;

**7.1.3.2 Lower capitalization requirement for Commercial Insurance Companies and Cooperative Insurance Societies wholly engaged in microinsurance.** Capitalization requirements shall not be lower than fifty percent (50%) of what is required for domestic insurance companies;

**7.1.3.3 Expanded admitted assets for entities engaged in microinsurance.** The Insurance Commission shall prescribe additional admitted assets arising from the premiums collected from the sale of the microinsurance products. These additional admitted assets shall be considered in the computation of the margin of solvency.;

**7.1.3.4 Appropriate Risk-Based Capital (RBC) framework for entities providing microinsurance products only.**

### 7.2 Market Conduct Requirements

7.2.1 Payment and Settlement of Claims. All entities providing microinsurance products shall process and settle claims within 10 working days from receipt of complete required documents. Submission of the required documents through electronic means shall be accepted as provided for in the E-commerce law.

7.2.2 Documentary Requirements. The microinsurance provider shall accept substitute documents for settlement of claims. Concerned regulatory authorities shall issue appropriate circulars providing for the minimum documentary requirements.



7.2.3 Filing of Complaints. Complaints related to microinsurance contracts shall be acted upon by the concerned regulatory authorities.

7.2.3.1 Complaints involving microinsurance benefits shall be acted upon within 5 working days upon filing of a complaint, and a resolution shall be made within 45 working days from the time the case is submitted for final resolution. Alternative dispute resolution mechanisms as mutually agreed upon by the parties concerned, may be utilized for the speedy resolution of microinsurance cases.

7.2.3.2 Other types of complaints shall be acted upon based on the nature of the complaint and the internal policies of the concerned regulatory authorities.

7.2.4 Know Your Client (KYC) Requirement. All microinsurance providers shall comply with the KYC requirements. For microinsurance clients, the application form containing the required minimum client information together with a photo-bearing ID or a substitute document is sufficient. Appendix 2 provides a sample list of valid IDs.

7.2.5 Governance Requirements - Existing requirements for good governance of concerned regulatory authorities shall be applied to all entities providing microinsurance products. Disclosure of microinsurance and insurance-like activities shall be required.

## 8. Who Can Sell Microinsurance Products

8.1 Only providers, agents and brokers licensed by the concerned regulatory authority shall be allowed to sell microinsurance products.

8.2 To facilitate distribution of microinsurance products, a **microinsurance agent/broker** shall be licensed to sell only microinsurance products. A microinsurance agent/broker shall not be required to take the regular licensure examination. Instead, he/she shall undergo an approved microinsurance training program and pass a qualifying examination at the end of the program. The concerned regulatory authority shall prescribe the training requirements for microinsurance agents/brokers.

8.3 Regular agents/brokers shall be allowed to sell microinsurance products and services.

8.4 Institutions engaged in microfinance activities may apply and be licensed as microinsurance agents/brokers, provided the license shall only cover the solicitation of microinsurance products.

Primary cooperatives may apply and be licensed as microinsurance agents/brokers, provided the cooperative agent/broker sells only microinsurance products to its individual members.

8.5 Microinsurance Brokers and General Agents shall be required a paid-up capital equivalent to half of what is required for regular brokers.



### **9. Performance Standards**

A set of performance standards shall be established by concerned regulatory authorities to ensure the efficient and effective delivery of appropriate microinsurance products and the viability, growth, and development of the microinsurance industry. It shall, among others, consist of performance indicators covering areas such as solvency and stability, efficiency, governance, understanding of the product, risk management and outreach.

### **10. Financial Literacy (Learning/ Education) for Microinsurance**

To ensure that both the provider and the client understand their roles and responsibilities in risk protection, the concerned regulatory authorities, in coordination with the Department of Finance (DOF), the National Anti-Poverty Commission (NAPC) and key stakeholders, shall conduct financial literacy trainings, seminars and workshops on microinsurance. Separate modules on financial (microinsurance) literacy (learning/education) shall each be developed for providers and clients. Financial literacy (learning/education) modules for providers shall focus on their responsibilities to clients, and the various prudential, market conduct and good governance requirements while the module for clients shall focus on their rights and responsibilities as insured.



### Appendix 1: Key Features of a Microinsurance Contract

- I. The following features are applicable to **life and non-life microinsurance contracts**:
  - A. **Coverage** - A microinsurance contract shall cover the insured, and at his/her option, may include his/her immediate family (i.e. his/her spouse, children, and in the case of single persons, his/her parents and siblings); and his/her assets;
  - B. **Period of Cover** – The term of the microinsurance contract shall be determined by the provider and shall depend on type of coverage;
  - C. **Risk and Contingent Events Covered**- A microinsurance contract may cover any of the following:
    1. Death (may be bundled with memorial plan, mortuary or burial benefits);
    2. Accident and illness;
    3. Fire and other extended perils;
    4. Calamities/disasters/catastrophic events (e.g. typhoon, earthquake, infestation, volcanic eruption, flooding and other convulsions of nature);
    5. Casualty (e.g. personal accident, motor vehicle, and money security and payroll robbery); and
    6. Other contingent events as may be determined by the concerned regulator
  - D. **Terms and Conditions** - A microinsurance contract shall clearly state the face amount, benefits and terms of insurance coverage. Contract provisions shall be clearly stated in simple terms. The manner and frequency of premium collections shall, if possible, coincide with the cash flow of the insured and may be collected daily, weekly, monthly, quarterly, semi-annually, and annually whichever is applicable.
  - E. **Effectivity** - A microinsurance contract becomes immediately effective only upon full payment of the first premium, contribution, fees or charges.
  - F. **Claims Settlement** - Claims for a microinsurance contract must be settled within 10 working days upon receipt of complete documents by the provider.
  - G. **Dispute Resolution** - Disputes related to microinsurance contract shall be settled initially through alternative dispute resolution mechanisms.
- II. The following apply to **life microinsurance contracts only**:
  - A. **Grace Period**- During the effectivity of the contract, the insured is entitled to a maximum grace period of 45 calendar days from due date of premium/contribution payment.
  - B. **Contestability** – The contestability period for a microinsurance contract shall be one (1) year.
  - C. **Suicide Clause** - The provider shall be liable if the insured commits suicide after one (1) year from the effective date or date of last reinstatement of the contract. Suicide committed in the state of insanity will be compensable regardless of the date of commission. Where suicide is not compensable, the liability of the provider will be limited to the return of premiums.
- III. In the case of **non-life microinsurance contract**, the provider shall send notices to the microinsurance clients at least 45 calendar days prior to expiration of the contract. Such notice shall include in clear terms whether the contract may or may not be renewed and any changes to be made thereon, if renewed.





### **Appendix 2: Sample List of Valid Identification Cards (Know Your Client Requirements)**

Clients who engage in insurance, insurance-like and similar activities for the first time shall be required to present the original and submit a clear copy of at least one (1) valid photo-bearing identification document issued by an official authority.

The term “official authority” shall refer to any of the following:

1. Government of the Republic of the Philippines
2. Government political subdivisions and instrumentalities
3. Government-owned and/or controlled corporations (GOCCs)
4. Private entities or institutions registered with, supervised or regulated either by the Bangko Sentral Pilipinas (BSP), Securities and Exchange Commission (SEC) or Insurance Commission (IC).

Valid IDs include the following:

1. Passport
2. Driver’s license
3. Professional Regulation Commission (PRC) ID
4. National Bureau of Investigation (NBI) Clearance
5. Police Clearance
6. Postal ID
7. Voter’s ID
8. Barangay Certification
9. Government Service Insurance System (GSIS) e-Card
10. Social Security System Card (SSS) Card
11. Senior Citizen Card
12. Overseas Workers Welfare Administration (OWWA) ID
13. OFW ID
14. Seaman’s Book
15. Alien Certification of Registration/Immigrant Certificate of Registration
16. Government Office and GOCC ID
17. Certification from the National Council for the Welfare of Disabled Persons (NCWDP)

18. Department of Social Welfare and Development (DSWD) Certification
19. Integrated Bar of the Philippines ID
20. Company IDs issued by private entities or institutions registered with, supervised or regulated either by the BSP, SEC or IC
21. Affidavit of two disinterested parties



AFFIRMED during the celebration of the Microinsurance Month on January 29, 2010:

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