



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila

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Superseding	None

INSURANCE MEMORANDUM CIRCULAR

TO : ALL PRE-NEED COMPANIES DOING BUSINESS AND OPERATING IN THE PHILIPPINES

SUBJECT : ADOPTION AND IMPLEMENTATION OF THE MICRO PRE-NEED REGULATORY FRAMEWORK

WHEREAS, in line with the government's objective of financial inclusion, the Insurance Commission recognizes the importance of providing a dedicated savings mechanism precisely designed for the low income Filipino to secure their financial future;

WHEREAS, the representatives of the Insurance Commission and the Philippine Federation of Pre-Need Plan Companies, Inc. have finalized the Micro Pre-Need Framework;

WHEREAS, the Micro Pre-Need Framework establishes a policy and regulatory environment that will foster, enrich, and aid the prudent and practicable provisions of Micro Pre-Need products and services;

WHEREAS, the Micro Pre-Need Framework aims to: (1) provide an opportunity to the low income sector to have access to pre-need products and services that will cater to their needs; (2) encourage the participation of the pre-need industry in offering micro pre-need products and services to promote the financial well-being of the low-income sector; and (3) provide the mechanism to ensure the protection of planholders' rights and privileges;

NOW, THEREFORE, pursuant to the authority vested to the Commission under Section 6 of the Pre-need Code of the Philippines, the attached Micro Pre-Need Framework is hereby adopted for the guidance of the Pre-Need Companies.


EMMANUEL F. DOOC
Insurance Commissioner

MICRO PRE-NEED REGULATORY FRAMEWORK

1. Background

1.1. Rationale

- 1.1.1. The Micro Pre-Need program aims to retrace the Microinsurance program's trail towards a financial system that is genuinely attuned to the needs of the low income sector. This is so as Microinsurance continues to provide an effective vehicle for financial inclusion.

The poor¹, burdened by their limited resources coupled with their disadvantaged financial condition, are deprived of access to the formal financial systems and products. More often than not, the poor have no bank accounts since they lack the capability to pool their hard-earned money to meet the minimum deposit requirement of banks. In times of financial need, be it payment for tuition fees, memorial services, or pension, they turn to loan sharks and other shady credit providers, biting the exorbitant interest rates and fees just so they can bridge their immediate need.

The Government, pre-need product providers, microfinance institutions and other sectors recognize the need for delivering innovative financial products for the poor.

The Micro Pre-Need product provides for a dedicated savings mechanism precisely designed for any of the following: education, life or memorial services, and pension. With affordability and steadfast commitment to deliver Micro Pre-Need products, the low income Filipino is empowered to secure their financial future.

The Micro Pre-Need Framework establishes a policy and regulatory environment that will foster, enrich and aid the prudent and practicable provisions of Micro Pre-Need products. It also provides the necessary mechanism to protect the rights and privileges of the Micro Pre-Need planholders. Over time, trust and confidence on the pre-need industry, its providers, and on the pre-need products in totality, shall be further heightened.

¹ Poor: A family of five earning below PhP8,778 a month. An individual whose aggregate income is less than PhP10,534 for six months. (<http://maps.napc.gov.ph/drupal/articles/poverty-count>). This also refers to and is used interchangeably with low income, disadvantaged, marginalized or the less privileged sectors of society.

1.2. Legal Basis

1.2.1. The Pre-Need Code

Section 4, paragraph (b), of R.A. No. 9829, Pre-Need Code of the Philippines, specifically states that:

“Pre-need plans are contracts, agreements, deeds or plans for the benefit of the planholders which provide for the performance of future service/s, payment of monetary considerations or delivery of other benefits at the time of actual need or agreed maturity date, as specified therein, in exchange for cash or installment amounts with or without interest or insurance coverage and includes life, pension, education, interment and their plans, instruments, contracts or deeds as may in the future be determined by the Commission.”

2. Vision Statement

The Micro Pre-Need program envisions to provide affordable pre-need products for education, life or memorial services, and pension especially catered to the needs of the low income sector.

3. Scope and limitations

The Micro Pre-Need Regulatory Framework encompasses the provision of micro pre-need products, services and other similar activities as may be defined by the Insurance Commission (IC).

4. The Objectives of the Framework

4.1. The Micro Pre-Need Regulatory Framework provides an enabling environment that aims to:

- 4.1.1 Give opportunity to the low income sector to have access to pre-need products and services that will cater to their needs;
- 4.1.2 Encourage the participation of the pre-need industry in offering pre-need products and services to promote the financial well-being of the low-income sector; and
- 4.1.3 Provide the mechanism to ensure the protection of planholders' rights and privileges.

5. Definition and Features of “Micro Pre-Need”

- 5.1. The term “Micro Pre-Need” refers to a program that provides pre-need contracts, agreements, deeds, plans, or other instrumentalities as may in the future be determined by the IC that meet the needs of the poor for education, life or memorial services, and pension.
- 5.2. The Micro Pre-Need products’ paramount considerations are: 1) accessibility, 2) affordability of contract price, and 3) simplicity of contracts.
- 5.3. Micro Pre-Need products shall provide guaranteed delivery of future services, monetary considerations, and/or other benefits upon maturity or actual need in exchange for cash or installment amounts with or without interest and/or insurance coverage collected prior to the maturity or actual need.
- 5.4. Other features of a Micro Pre-Need Product are as follows:
 - 5.4.1. The amount of cash or installment payments, computed on a daily basis does not exceed **seven and a half percent (7.5%) of the current daily minimum wage rate for non-agricultural workers in Metro Manila;**
 - 5.4.2. The maximum sum of guaranteed benefits or services **is not more than one thousand times (1,000x) the daily minimum wage rate for non-agricultural workers in Metro Manila;**
 - 5.4.3. All micro pre-need products are **fixed value plans**, of which benefits and cost are fixed and predetermined at the inception or purchase of the plan;
 - 5.4.4. All Micro Pre-Need products shall clearly state the future services, monetary consideration and other benefits in the contract;
 - 5.4.5. The provisions in the contracts, agreements, deeds or plans can be easily understood by the planholders and printed in English and/or Filipino and/or other major dialect;
 - 5.4.6. The documentation requirements are simple;
 - 5.4.7. The manner and frequency of collection of installment payments, fees or charges coincide with the cash flows of the Micro Pre-Need planholder and are not onerous;
 - 5.4.8. Micro pre-need products may be bundled with microinsurance products, other micro pre-need products and/or microfinancial products that may be allowed by the Commission, subject to consumer

protection considerations and licensing requirements for providers and salespersons/agents;

- 5.4.9. The aggregate amount of cash or installment payments, sum of guaranteed benefits and services and other features for bundled products shall be subject to the provisions of the relevant circular/s that may be issued by the IC;
- 5.4.10. The contract for bundled products shall identify the lead provider who shall assume the responsibility for the delivery of the contract, receipt of premiums/installment amounts or consideration and acceptance of claims documents; and
- 5.4.11. Provisions of contracts that are unclear or ambiguous shall be interpreted in favor of the planholder.
- 5.5. All relevant provisions in the existing Pre-need Code and Circulars affecting preneed products and services shall be applicable.
- 5.6. The IC shall issue appropriate circulars prescribing the features of Micro Pre-Need products and simplified Micro Pre-Need contracts. Existing documentary requirements shall likewise be reviewed and revised when the need arises to make sure that the requirements are applicable to the low-income sector.

6. Who can provide Micro Pre-Need products

Micro Pre-Need products that satisfy the conditions on Section 5 of this framework shall only be provided by Pre-Need companies duly registered and licensed by the IC.

7. Requirements from Providers

The IC shall adopt the following requirements:

7.1. Prudential Requirements

7.1.1. *Trust Funds and its investments*

To ensure the delivery of the guaranteed benefits and services provided under the micro pre-need plan or contracts, a Micro Pre-need Trust Fund per pre-need plan category shall be established.

- 7.1.1.1. A portion of the cash or installment payment shall be deposited by the pre-need provider in the Micro Pre-need Trust Fund, the amount of which shall be determined by the actuary based on the viability study of the micro pre-need product subject to Section 31 of the Pre-Need Code;
- 7.1.1.2. Contributions to the Micro Pre-need Trust Fund should be separately accounted and reported by the company to the IC;
- 7.1.1.3. The trustees should maintain a liquidity reserves in accordance with the provisions of Sec. 37 of the Pre-Need Code;
- 7.1.1.4. In addition to the provision of Sec 34 of the Pre-Need Code, investment of the remaining 20% of the Micro Pre-Need Trust Fund may be allowed pursuant to the guidelines on investments as maybe issued by the Insurance Commissioner on top of the allocation under Section 34.
- 7.1.1.5. Other investment outlet not enumerated under Sec 34 may be allowed subject to the prior approval of the IC pursuant to the last paragraph of Section 36 of the Pre-Need Code.

7.1.2. Regulatory requirements

The Pre-need companies providing micro pre-need products should comply with all regulatory requirements for products approval, Trust Fund, solvency, capitalization, Networth, investments, reserves requirements and Risk Based Capital (RBC) as provided for in the Pre-Need Code and relevant IC Circulars.

7.1.3. Corporate Governance Requirements

Existing requirements for good corporate governance shall be applied to all Pre-need companies providing Micro Pre-Need products. Disclosure of micro pre-need and other pre-need like products or activities shall be required.

7.1.4. Performance Standards

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

7.2. Market Conduct Requirements

7.2.1 Micro Pre-Need providers shall adopt and implement market conduct guidelines as prescribed by the IC.

7.2.2 Know Your Client (KYC) Requirement

All Micro Pre-Need providers shall comply with the KYC requirements. For Micro Pre-Need clients, the application form containing the required minimum client information together with a photo-bearing ID or a substitute document is sufficient. Appendix 1 provides a sample list of valid IDs.

8. Who can sell Micro Pre-Need Products

8.1. Only providers, sales counselors, pre-need general agents and pre-need brokers licensed by the IC shall be allowed to sell Micro Pre-Need products.

8.2. To facilitate distribution of Micro Pre-Need products, a Micro Pre-Need sales counselor shall be licensed to sell only Micro Pre-Need products. They shall undergo an approved Micro Pre-Need training program. The IC shall prescribe the training requirements for Micro Pre-Need sales counselors.

8.3. Regular pre-need sales counselors shall be allowed to sell Micro Pre-Need products and services.

8.4. Institutions or entities engaged in microfinance and/or microinsurance activities may apply and be licensed as Micro Pre-Need sales counselors/brokers, provided the license shall only cover the solicitation of Micro Pre-Need products.

9. Customer Protection

9.1. Delivery of services and /or payment of benefits

Micro Pre-Need Memorial services shall be processed and provided within 24 hours from receipt of notice of death. For other monetary benefits for Micro Pre-Need life or memorial, education or pension plan, the payment of monetary considerations shall be made within ten (10) 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.

9.2. Alternative Dispute Resolution

9.2.1. Alternative dispute resolution mechanism as mutually agreed upon by the parties concerned may be utilized for the speedy resolution of the micro pre-need cases.

9.2.2. An appropriate Alternative Dispute Resolution (ADR) mechanism for micro pre-need products shall be adopted to ensure consistency in the implementation while allowing flexibility. The use of appropriate ADR reduces the cost, time and complexity of any litigation.

9.3. Filing of Formal Complaints

Complaints involving Micro Pre-Need products or services shall be acted upon within five (5) working days upon filing of an official complaint and a resolution shall be made within forty five (45) working days from the time the case is submitted for final resolution.

10. Financial Literacy

To ensure that both the provider and the client understand their roles and responsibilities in providing the needs of the poor for educational, life or memorial services, and pension plans, the Pre-Need industry, concerned regulatory agencies, and other stakeholders shall conduct financial literacy training/seminars on Micro Pre-Need. Separate modules on financial literacy shall each be developed for providers and clients. Financial literacy modules for providers shall focus on their responsibilities to client, and the various prudential, market conduct, good corporate governance requirements, and reportorial requirements while the module for clients shall focus on their rights and responsibilities as Micro Pre-Need planholders.

Appendix 1: Sample List of Valid Identification Cards (Know Your Clients Requirements):

Clients (Planholders) who will buy a micro pre-need product 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 documents issued by an official authority or by private entities or institutions registered with, supervised or regulated by the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC) or Insurance Commission (IC). 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).

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/Immigration Certificate of Registration
16. Government Office and GOCC ID
17. Certification from the National Council for Welfare of Disabled Persons (NCWPD)
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 by the BSP, SEC or IC
21. Affidavit of two (2) disinterested parties.

Respectfully submitted and endorsed to the Insurance Commissioner for consideration and approval, the Final Regulatory Framework for Micro Pre-Need.


REPRESENTATIVES OF THE PHILIPPINE FEDERATION OF PRE-NEED PLAN COMPANIES, INC.


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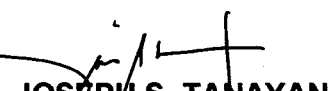

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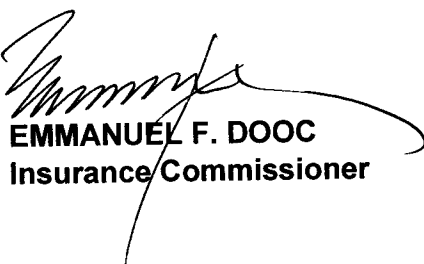

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