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Circular Letter

To : All Non-Life Insurance Companies Doing Business in the Philippines

Subject : Proposed Models for Compulsory Third Party Liability (CTPL) Consortium

To forestall any confusion concerning the position of the Insurance Commission (InsCom), on the RAMSI and PIRA models for the CTPL consortium, your attention is invited to the letter dated August 3, 2005 of the InsCom to the PIRA

Enclosed for your information and proper guidance is a copy of the letter together with the attachments.




BENJAMIN S. SANTOS
Insurance Commissioner



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August 3, 2005

Philippine Insurers & Reinsurers Association (PIRA)
6/F Champaca II Building
162 L.P. Leviste Street., Salcedo Village
Makati City

Attention: **Ms. Herminia S. Jacinto**
Chairperson

Gentlemen:

This refers to your letter of July 29, 2005 and the presentation on RAMSI and PIRA models for the proposed CTPL consortium at our meeting last August 1, 2005.

After a very careful evaluation of the two models, the InsCom decided that, contrary to the claims made during the presentation, the RAMSI model is superior in terms of practicality, ease of application, system security, and public convenience. PIRA model appears to be impractical and incapable of properly addressing and correcting the flaws and irregularities in the present CTPL system in place.

Further, we strongly recommend that for reasons of transparency and equity the result of our evaluation of the two models be taken up at the next PIRA General Membership Meeting.

Attached are our comments on the major points of the PIRA Model (Annex A) and a side-by-side, specific comparison between RAMSI and PIRA models.

Thank you for your attention.

Very truly yours,

REYNALDO M. VERGARA
Chief Insurance Specialist
Actuarial Division

BENJAMIN S. SANTOS
Insurance Commissioner

Received by: *Mady Tercero*
8/5/05

COMMENTS ON MAJOR POINTS OF PIRA - CTPL Model

- Management of the Consortium - The InsCom has emphasized to the PIRA not only once but several times that management of an insurance consortium may not be undertaken by the consortium itself. For purposes of control, coordination, check and balance, and integration of functions, among others, management must be performed by a completely independent and separate entity. Such is the case in the very successful consortium providing insurance coverage for the LTFRB which is managed by the Philippine Accident Managers, Inc. The InsCom further notes that much of the bookkeeping and recording functions under the PIRA model would be outsourced thus opening up the model to potential leakages which it may not even be possible to project right now. On the Management of the Consortium factor alone therefore, the PIRA model fails to pass InsCom standards.
- Role of Insurance Agents - The PIRA model does away with insurance agents. That would mean the displacement of thousands of Filipinos and their families whose livelihood depends on their ability to sell CTPL coverage at LTO offices all over the country. The undersigned would like to remind the PIRA that these agents have been demonstrating practically every week at the InsCom and Department of Finance offices precisely to demand that their role in the CTPL program be retained. How does PIRA propose to make up to these agents the earnings that enable them to keep body and soul together? The RAMSI model in contrast ensures that social costs are covered by continuing the role of the said agents- with the proviso that they would need to possess current InsCom licenses.
- Public Convenience - The InsCom is not willing to incur the ire of millions of vehicle owners trooping to LTO offices all over the country to register their vehicles- only to find that they had to have passed by a bank first to purchase CTPL coverage. The additional prospect of not only the ire but the rage of those vehicle owners finding banks not open at 8 a.m. or closed at 3 p.m.- or not finding a bank at all- is something the InsCom is not willing to face either. Considering this intrinsic impracticality therefore, the PIRA model again fails to pass InsCom standards. Furthermore, the need for a 24-hour waiting period after a bank purchase of CTPL, to enable vehicle registration is absolutely unacceptable and very inconvenient to the insuring public.
- Integrity of Processes- Issuance of a COC upon demand as is indicated in the PIRA model is vulnerable to fraud and corruption, even when conducted within banking premises. The mere act of issuance already poses the possibility of fraud as the forms have to be physically distributed to all bank branches.
- Lastly, the InsCom reiterates to the PIRA that its role in this matter was to form a consortium and thereafter to evaluate and critique proposals from interested management companies. The PIRA took it upon itself instead to formulate its own system and in effect become a proponent and a management company itself. Aside from ignoring basic conflict-of-interest issues, the PIRA appears to have veered from the principle that a playing field should be level. The InsCom through this evaluation has ensured that this be the case.

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Pira In-House and the Road Accident Managed Services, Inc. (RAMSI)

Feature/s	PIRACO	RAMSI	How well Issues/Concerns are addressed
Management of the Consortium	Consortium to be formed. To manage themselves, through PIRA. Using externally outsourced managers.	Professional management company with strong IT expertise; systems integrator focusing on the CTPL program. Technical insurance management by top retired insurance industry executives; management and IT.	InsCom position is that the management company must be independent from the insurance companies it will manage.
Business Facilities of Management Co	Will need to outsource	Infrastructure in place; ready to operate; system synchronized with LTO system. Integrated supplier.	
Funding of Management	PIRA funds from GPW assessment; costs not been submitted; rather open ended costing.	Self funded; fixed fee.	
Definition of Management Documentary Evidence	Fully outsourced	IT, call center, claims, prepaid COC is more secure and controlled.	PIRACO has no system in place. RAMSI management includes systems integration.
	Business solution for the CTPL problems, targetting the distribution system and collection of premium of the COC.	Solution - innovative business solution that changes the CTPL as a product, business, and claims settling for the public.	
	IT- SQL	IT - AIT	
	Link to BIR - through the bank	Link - will settle by epay to BIR.	
	COC - issued by the bank; PIRACO is silent on the CTPL.	COC - offshore printing & CTPL kit production, difficult and expensive to fake.	Under the Bangko Sentral ng Pilipinas, the bank cannot issue and sell insurance within bank premises.
	Call Center - none	Call Center - AIT	
	Claims - APAC, traditional. First step is to assign the accident to APAC to evaluate and settlement will be done by PIRACO.	Claims - in house, business process management automation; immediate medical attention to the victim.	Response to accidents should be fast to be effective.
	Response time - 24 hr time lag; insured has unwarranted stress.	Response time - immediate.	This 24 hour wait is absolutely unacceptable. The bank hours of 9am to 3 pm is short of the LTO office hours of 8 am to 5 pm. Is also inconvenient for the public.
	Financial -	Financial -	
	- Accounting & auditing firm to be hired for the huge consolidation of data;	- Automated accounting system and reporting; external auditor;	
- Issuance of COC by bank, Paylink;	- Production & control of prepaid cards & CTPL kits by management co;	The PIRACO system is uploading; the RAMSI model is preloaded. Preloading has no human intervention for errors and fraud. The bank system is an added layer, while maintaining the basic current system; this does not address the concerns of the CTPL program.	
- IT outsourced; no control on sale & commissions and COC issued;	- Assures collection & declaration of total premium to the consortium and InsComm;		
- Taxes & charges by bank;	- Taxes & charges remittance to the government using epay; this is the only business of RAMSI, and it would be easy to audit by InsCom, BIR and PIRA.		
- Claims - outsourced, assign adjusters	- Legitimate claims are properly settled.		

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Comparison of Business Models
 Pira In-House and the Road Accident Managed Services, Inc. (RAMSI)

Feature/s	PIRACO	RAMSI	How well Issues/Concerns are addressed
Storefront, where to get a CTPL cover	Paylink, Bank only Vehicle owner/agents purchase from and pay to accredited banks	Insurance companies, agents, brokers, LTO. Subject to agreement among consortium members, outlets can be accredited. Vehicle owner/agents purchase from and pay to licensed insurance companies	Banks operate 9-3pm, Monday to Friday and have distinct strategies for putting up presence in different areas. Insurance companies usually operate from 8-5pm, Monday to Saturday and have own agency network who can penetrate and serve the insuring public.
Contract of Insurance	CTPL - No details mentioned	CTPL - Separate Document, an insert forming part of the CTPL Kit	The CTPL is an insurance contract between a vehicle owner and the insuring entity. As such a vehicle owner must have a copy of the contract indicating all the provisions to include the schedule of indemnities.
Certificate of Cover	Triplicate pre-numbered paper-based bank form with bar code that requires a bank teller machine validation as proof of payment.	Prepaid Card included as part of the CTPL Kit.	RAMSI is pre-issued, off-the-shelf and can be purchased on demand over-the-counter. PIRACO goes through the regular process of COC issuance which will be done by a bank and requires waiting and queueing.
COC Security Feature/s	Security paper with bar code	Prepaid Card with hologram. The prepaid cards has an international certification (as in credit cards) to the number and series printed (no overprinting).	RAMSI model tightly addresses the use of fake COCs and multiple use of COCs; Prepaid cards have multiple security features which are harder to copy and the VINs can only be activated at LTO once. Prepaid cards can be immediately verified as to authenticity through SMS and can be immediately used to register a vehicle. PIRACO solely depends on the bank for the authenticity and
	Bank Teller machine validation on receipt, not on COC.	Serial/barcode	
		Concealed 16-digit system-generated number (Vehicle Insurance Number or VIN).	
Generating the COC Number/VIN	Pre-printed on bank form with bar code. It is uploading.	System-generated numbers with pre-defined algorithm and pre-loaded to the LTO System once series has been distributed to consortium members.	PIRACO model is the first generation ISAP model of the COC padded forms which over the years have been proven to be unsecured, including the possibility of multiple usage of the same series. RAMSI prepaid card can only be activated once.
	Paylink - insurance company will enrol in paylink, and generate the COC & receipts.		What will prevent an insurance company or broker to enrol in paylink & they will generate the COC receipts and reprint the same for other clients?
	Uploaded to the LTO at end of day resulting to a 24-hour wait for the vehicle owner before proceeding to car registration.	Purchase and presentation of the card to LTO can occur within the hour with no need to wait overnight.	
Computing for various CTPL premium amounts	Client/Agent selects premium due and computes taxes/charges/LGT using a poster displayed in bank premises prior to accomplishment of COC form and validation by bank teller	Premium due (VAT/DST/LGT inclusive) are pre-computed and shown as various denominations of the prepaid cards.	No need for premium computation on the RAMSI model. Cover is pre-underwritten therefore pre-computed. No need for forms filling. PIRACO subject to human error and fraud; no audit by InsCom is not acceptable.

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Comparison of Business Models

Pira In-House and the Road Accident Managed Services, Inc. (RAMSI)

Feature/s	PIRACO	RAMSI	How well Issues/Concerns are addressed
Vehicle Details	Initial Model: Declared through a bank form filled up by Client/Agent during payment. Data capture done by bank teller using a bank system for the purpose.	Vehicle information/details pushed by LTO/StradCom at the time of VIN activation during vehicle registration.	RAMSI model has no manual intervention on vehicle information as these data are passed from the LTO system through a secured linkage to StradCom.
	Current Model: Data capture centers on plate/sticker numbers.	This is data replication without manual data encoding/intervention.	
Agent Commissions Disbursement	To be disbursed by PIRA Consortium to licensed intermediaries.	To be disbursed individually by insurance companies to their intermediaries.	RAMSI preserves the market practice of agents' commission disbursements through the insurance companies; also provide the insurance companies the means to track CTPL GPW of their respective agents, upon request.
Operations	Accredited banks responsible for daily reconciliation process of information, account balances, verify premiums and taxes, in addition to regular banks responsibilities of deposit procedures and validation.	Purely focused on managing the day-to-day operations of the CTPL Consortium. Shall do as what the accredited banks will be doing.	RAMSI's focus is purely on the CTPL servicing (claims included) unlike the banks whose core business is deposits not insurance.
IT Support	SQL Wizard, the IT service provider of PIRA for the COCAS for the last three years; 5 year contract.	AIT, incorporated in August 1997, have been providing securities, management services.	Information and Communications Technology (ICT) is only one of the many component services that RAMSI shall deliver/perform.
Administration	PIRA through the creation of a Consortium Division, managing the relationships with accredited banks; SQL Wizard, and possibly an external accounting firm.	Integrated services being offered.	Built-in with the RAMSI's service offer. No need to dilute PIRA's current mandate; develop and acquire the necessary competencies to assume the operations of an insurance business that is highly IT-based.
Gateway	Information captured at accredited banks; plate number or conduction sticker.	Direct from LTO/StradCom.	RAMSI's model is data information is replicated (not manually encoded) from the data source - LTO.
Reporting	Accredited banks report to PIRA, keeps separate accounts for BIR, consortium members, et al.	Reports and remit taxes to BIR, SOA to each consortium members accounting for funds deposits, funds activated, road accident funds.	PIRA is only one of the clients of an accredited banks while with RAMSI, PIRA/Consortium is the one and only important client to be satisfied.
Claims handling & settlement	Outsourced to the Association of Philippine Adjustment Company (APAC)	Through accredited health providers and banks; regional offices, call centers; use of adjusters for exceptional cases. NOT OUTSOURCED TO PAMI.	RAMSI's model offers more flexibility to claimants by making available several channels to file their claims. It provides immediate relief to accident victims through the use of accredited health service providers nationwide. It removes dependency on a third party (adjusters) before any medical attention is provided.
Claims Funds	Initial Model: Set-up of P500k per consortium member; maintained at a minimum level of P40mio. Current Model: 25% of premiums	Road accident fund maintained at 25% of funds deposited.	Same for both models.

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Comparison of Business Models
 Pira In-House and the Road Accident Managed Services, Inc. (RAMSI)

Feature/s	PIRACO	RAMSI	How well Issues/Concerns are addressed
IC Link	No details mentioned.	Reports directly to the Insurance Commission thru the use of a centralized database system.	Online access to RAMSI's database for information queries is available through a web-enabled application.
BIR Link	Bank transfers to a depository account, taxes and charges collected and due to BIR.	RAMSI declares taxes and charges to BIR only on the amounts representing activated VINs.	RAMSI's model declares only VINs which are activated; not all VINs as purchased.
Financial Representation - Premium Payment	No cash outlay required for insurance companies	Insurance companies required to prepay and deposit the amount equivalent to the volume of CTPL kits they requisition, net of 20% trade discount. However, in so many meetings and in so many ways, ManCo has stated that credit term can be extended depending on what the consortium policy on it will be. It has been pointed out that if credit is extended, the monthly share of 1/n is affected.	PIRACO model is advantageous to insurance companies but inconvenient for the insuring public and licensed intermediaries.
Float for prepayment	None	The float is part of the Prepaid COC card Model. However, this aspect of the float can be managed properly and should not form a large part of - 476mio	1) If insurance companies prepay on cards, the float (representing the value of the initial cards deposited) can be managed by a realistic and efficient control of card inventory that they need to maintain. As a result, this float can be treated as a revolving fund for subsequent deposits on card requirements.
Float due to credit term	None	The float (credit sales) mentioned is brought about by the business arrangement to extend credit to intermediaries, therefore is outside of the RAMSI model.	2) If insurance companies extend credit to their intermediaries for the cards, the cost of money should be for their account as this is a business arrangement of their choice.
Down the wire costings	The costings presented by PIRACO need to be reviewed and evaluated as to adequacy of provision and should be more detailed, e.g., outsourcing costs (professional fees, CPAs, APAC to name a few) and the cost of Consortium Corporate Citizenship Projects.	The inclusion of accounts such as SQL penalties, float costs, 6% add-on on card costs as part of RAMSI charges need to be corrected/clarified.	The costings for RAMSI as presented by PIRA needs to be reviewed in terms of the 6% add on to the cost of cards, the deletion of the SQL Penalty & miscellaneous shut down. Clarification on the inclusion of a float of 476mio resulting to a 10% cost of money equal to 47.6mio is needed.
PIRACO moving forward Consortium Corporate Citizenship projects	The funding for these as stated is not indicated in the PIRACO financials.	Not applicable.	

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Comparison of Business Models
 Pira In-House and the Road Accident Magaged Services, Inc. (RAMSI)

Feature/s	PIRACO	RAMSI	How well Issues/Concerns are addressed
Is proposed system synchronized with LTO service strategy for public convenience			
LTO Agents	No more reselling at LTO.	Preserves the current system that COC is available at LTO premises.	LTO is committed to providing the convenience to the public, includes insurance agents at LTO.
Public Convenience	Bank is open during banking hours 9 am to 3pm;	Insurance cos., agents, brokers are open for business at regular office hours; Call center operates on 24 hour/7day schedule.	LTO is open at regular business hours of 8 am to 5 pm. whereas the banking hours is only from 9 am to 3 pm.
Real Time	24 hr waiting period after issuance of	Real time with Stradcom and COC preloaded to the system.	Basic difference is the human intervention, which is subject to error and fraud. LTO finds the preloaded system as more convenient and practical; RAMSI model is synchronized with LTO system.
Is proposed system synchronized with InsComm service strategy.			
Insurance Agents		Agents welfare & livelihood are protected as they are recognized as business producers.	The InsCom is committed to preserving the livelihood of insurance agents.
Eliminate fake COC	Issued by bank on security paper	Prepaid cards printing have international certification.	
Prompt settlement of legitimate	Will assign first an adjuster; PIRACO will settle claims	Direct link with accreditation of hospitals for emergency treatment.	
Payment of Insurance coverage	Preparation and payment by bank CTPL - No details mentioned	By epay (bank) CTPL - Separate Document, an insert forming part of the CTPL Kit	
	COC - issued by the bank	COC - prepaid card	
Administrative procedure/Security against fakes	Bank based; security paper only; Triplicate pre-numbered paper-based bank form with bar code; paylink can generate COC and receipt.	Prepaid cards printing have international certification; System-generated numbers with pre-defined algorithm and pre-loaded to the LTO System	What will prevent an insurance company or broker to enroll in paylink & they will generate the COC receipts and reprint the same for other clients?
Documentary Evidence of cover	24-hour wait before COC can be presented to LTO. No insurance contract evidence, vehicle owner has no insurance policy when he pays for the COC at the bank.	Can immediately be presented to LTO. CTPL policy is a separate Document, an insert forming part of the CTPL Kit.	The 24 hour wait for the bank to upload is absolutely unacceptable. InsCom cannot allow PIRA to sell insurance without the proper documentation and receive the premium.
Financial capability	Outsourcing - open ended	Self Funded; fixed fees	
Infrastructure	Outsourcing	IT and management co experience on a big scale is impressive	
Criteria for the selection of a management company.	Business Model	Business Model, experience, Infrastructure	
Expressed Interest to join consortium	Will present to PIRA members as the choice of the PIRA Board.	40 insurance companies	Unethical and bad business practice by PIRA.

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