



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



Advisory No. 2021 - 09

TO : THE PUBLIC

**SUBJECT : GUIDELINES ON THE ADOPTION OF A REGULATORY
SANDBOX FRAMEWORK FOR PILOTING AGRICULTURE
INSURANCE**

DATE : 10 May 2021

Pursuant to Section 437 of the Insurance Code of the Philippines, as amended by Republic Act No. 10607, ***“the Commissioner may issue such rulings, instructions, circulars, orders and decisions as may be deemed necessary to secure the enforcement of the provisions of this Code, to ensure the efficient regulation of the insurance industry in accordance with global best practices and to protect the insuring public...”***

Relative to the insurance protection gap problem in the agriculture industry, the Insurance Commission is providing an opportunity for the public to comment on the draft Circular Letter on the *Guidelines on the Adoption of a Regulatory Sandbox Framework for Piloting Agriculture Insurance*.

The Philippines is a typhoon-prone country, with an average of 20 storms passing through each year. One of the most affected sectors is the agriculture sector. The agriculture sector also faces several other calamities like pests, drought, and flood. Most of the losses due to natural calamities have been borne by farmers.

Insurance is one way to help farmers recover from such calamities. However, the sector is also faced with insurance protection gap due to the scarcity of insurance products covering their crops and produce.

The aim of the attached guidelines is to engage both the private and the public sector to enable correct market positioning, development of insurance products with a holistic approach towards enhancing farm risk management and bundling of insurance with Value Added Services (VAS) aimed at risk-sharing and risk-reduction to expand the agri-insurance market in a sustainable manner.

Relative thereto, the public is hereby requested to provide comments on the draft Circular Letter re: *Guidelines on the Adoption of a Regulatory Sandbox Framework for Piloting Agriculture Insurance*.

The comments shall be submitted to the **Technical Working Group on Agri-Insurance** through the following e-mail addresses **on or before 30 June 2021**:

Mr. Allan Paul B. Borres

apb.borres@insurance.gov.ph

Mr. Alex T. Dela Cruz

at.delacruz@insurance.gov.ph

Atty. Joana Michelle J. De Ocampo

jmj.deocampo@insurance.gov.ph

For inquiries and questions, please call +63(2) – 8523-8461 local 128.

DENNIS B. FUNA
Insurance Commissioner



Attachment:

1/ Draft Circular Letter



| | |
|----------------------|--|
| Circular Letter No.: | |
| Date: | |

CIRCULAR LETTER

TO : ALL NON-LIFE INSURANCE COMPANIES AND LICENSED INSURANCE INTERMEDIARIES OR AGGREGATORS OF THE INSURANCE COMMISSION

SUBJECT : GUIDELINES ON THE ADOPTION OF A REGULATORY SANDBOX FRAMEWORK FOR PILOTING AGRICULTURE INSURANCE

WHEREAS, insurance is an important risk management strategy to mitigate the risks associated with the perils confronting the agriculture sector in general and the farmers in particular;

WHEREAS, agriculture insurance in the country is mostly provided by the Philippine Crop Insurance Corporation (PCIC), the government authority mandated under Presidential Decree No. 1467, as amended by Presidential Decree No. 1733 and Republic Act No. 8175, to provide crop insurance to small farmers, particularly those who are cultivating land that are 7 hectares and below;

WHEREAS, PCIC provides multi-peril crop insurance, which covers losses due to weather, natural calamities, pests and diseases, for various types of agricultural commodities (e.g. rice, corn, high-value commercial crops (HVCC), livestock and fishery);

WHEREAS, the insurance penetration rate among farmers is low, ranging at only 8 to 14 percent for rice and only 2 to 6 percent for corn for the period of 2013 to 2017;

WHEREAS, private insurance companies recognize and consider the agriculture sector as a new and potential market for their products and services;

WHEREAS, the increased capitalization of insurance companies enables them to cover catastrophic risks that are usually present in agriculture production and related activities;

WHEREAS, the development and availability of new technology platforms enable private insurers to more accurately determine the risks associated with agriculture and improve cost efficiency in the delivery of agriculture insurance to farmers located in remote areas;

WHEREAS, the PCIC is willing and interested to share relevant data and information, as well as to provide and share capacity to private insurance companies that would like to provide agriculture insurance;

NOW THEREFORE, in view of the foregoing and in accordance with the statutory powers vested in the undersigned by Section 437 of the Insurance Code of the Philippines as amended by Republic Act No. 10607, the following *Guidelines on the Adoption of A Regulatory Sandbox Framework for Piloting Agriculture Insurance* are hereby adopted and promulgated:

Section 1. Definition of Agriculture Insurance. - For purposes of this Circular Letter, the term "Agriculture Insurance" shall refer to the insurance of the **produce of or assets used in cultivation of crops (i.e. grains, cereals and other crops as well as fruits and vegetables), livestock (i.e. dairy, cattle, hog and beef), rearing, animal husbandry, poultry farming, dairy farming and fisheries including all value chain activities** like production, transportation, storage, processing, packaging, preservation and marketing: *Provided*, That any insurance product already classified under existing categories of insurance, e.g., fire, marine, engineering, shall be excluded from the foregoing definition.

Provided further, That an agriculture insurance product, as defined above, bundled with another existing insurance product through the issuance of a single insurance policy shall be treated as one policy for purposes of this Circular Letter. In case separate policies are issued, the existing product other than the agriculture insurance product will not be covered by this Sandbox Regulation.

Section 2. Collaborations for Agriculture Insurance. - Non-life insurance companies shall be allowed to provide agriculture insurance, independently or in collaboration with PCIC or any of the following: national and international public and private sector insurers, as may be permitted by law and in accordance with existing laws and regulations, reinsurers, technology providers and multilateral agencies: *Provided*, That such collaboration involving reinsurance or coinsurance arrangement can only be with licensed insurers or reinsurers, including PCIC, with experience in underwriting agriculture (re)insurance;

Provided further, That any such collaboration shall be evidenced by way of a written agreement clearly stating the roles and responsibilities of each party. Any subsequent amendment to the said agreement(s) shall require prior approval from the Insurance Commission (IC).

Section 3: Submission of Proposals. - Any non-life insurance company intending to apply for participation in a Regulatory Sandbox for Piloting Agriculture Insurance shall submit a formal proposal to this Commission's

Regulatory, Enforcement and Prosecution Division (“REPD”), whether in hard copy, flash drive or compact disc. The proposal should contain the following:

- a. Full details of the partner organization/company including its experience and expertise in the agriculture insurance sector;
- b. Clear nature of the arrangement with the partner organization/company, e.g., technical collaboration, coinsurance or reinsurance;
- c. Product details including product name, basis of indemnity (index or actual loss), perils covered, deductible if any, basis of valuation, policy conditions and exclusions, and other relevant information;
- d. Value added service proposed to be offered to insured farmers, if any;
- e. Produce or assets, as defined in Section 1 hereof, to be covered and the geographical areas in which pilots will be carried out;
- f. Underwriting process including the rating metrics, parameters for discounts/loadings on basic premium, pre- and post-underwriting inspection, etc.;
- g. Claim/s settlement process including procedure for notification of claims, assessment of loss, loss adjustment, time limit for disposal of claims, procedure to be followed for payment and rejection of claims;
- h. Intermediaries to be used and commission rates to be paid to intermediaries;
- i. Copy of the draft collaboration/technical service/coinsurance/reinsurance agreement, as the case may be;
- j. The period for which pilot is proposed to be carried out, which shall not exceed a total period of _____ years from the date of issuance of the first policy under the proposal;
- k. A projected revenue account for the pilot;
- l. Actuarial certificate indicating the impact of the proposed agriculture insurance product on the participating non-life insurance company's solvency;
- m. Approach towards insurance literacy for the proposed pilot; and

- n. A written projected plan and clear strategy for exit (“Exit Plan”) from the Regulatory Sandbox, which shall include:
 - i. Plan for the insured in case the pilot is ordered discontinued or in case the non-life insurance company ceases its operations voluntarily or upon this Commission’s orders, which shall include scenarios for transitioning and/or compensating the insured, among others; and
 - ii. The amount that will be specifically earmarked for the implementation of the pilot that shall be intended as payment for any claims arising from said implementation or adoption thereof, which shall be unimpaired at all times.

The REPD shall receive any and all applications under this Circular Letter and determine whether or not the required documentation is complete. The REPD may require additional information or documents from the Applicant for clarificatory matters, as may be necessary. In evaluating the applications, the REPD is authorized to coordinate with the Technical Working Group on Agricultural Insurance (the “TWG”), as well as other concerned divisions in this Commission.

After due consideration of the proposal, the REPD, in coordination with the TWG, shall submit its recommendation to the Insurance Commissioner for approval. If the Insurance Commissioner is satisfied with the recommendations of the REPD and the TWG, a letter of approval shall be issued to the successful Applicant. The successful Applicant will be allowed to proceed with the pilot program, subject to conditions as may be specified in the approval letter.

The submission of applications to participate in a regulatory sandbox under this Circular Letter shall be on an on-going basis, subject to any other rules and regulations, which the Commission may thereafter promulgate.

Section 4. Product Design and Approval. - The insurance product to be offered under the proposed agriculture insurance pilot shall be separately submitted for product approval in accordance with the relevant guidelines/rules. Applications shall be submitted to the REPD. The IC shall expeditiously consider the approval as per the rules: *Provided*, That in case the proposed agriculture insurance product is bundled with another life or non-life insurance product that has already been approved by the IC, only the proposed agriculture insurance product shall require prior approval.

Section 5. Insurance Policy. - The applicant non-life insurance company shall arrange for issuance of a policy of insurance and/or Certificate/s of Cover to every insured under the pilot within a period of _____ days from the receipt of premium: *Provided*, That the policy is effective as of the date of receipt by the insurance company of the premium.

The insurance policy and/or Certificate/s of Cover shall contain full details of coverage, policy period, premium paid, perils covered, exclusions, conditions and claims process in simple language. Every such policy shall also include the following wordings prominently:

“This insurance policy is being issued under a Sandbox Regulation under a pilot project supervised by the Insurance Commission.”

Section 6. Sales and Distribution. - The agriculture insurance products under the proposed pilots can be distributed through licensed insurance or microinsurance agents or brokers as well as other distribution channels like agriculture input providers, Microfinance Non-Government Organization (MF-NGO) and banks engaged in agriculture finance, even if they are not licensed insurance agents or brokers, subject to the relevant provisions of Circular Letter No. 2016-64 dated 19 December 2016 on the “*Adoption and Implementation of Microinsurance Distribution Channels Regulatory Framework*” with respect to microinsurance products, and such other relevant rules and regulations as may be subsequently issued by the IC:

Provided, That the distribution of agriculture insurance products under the proposed pilot shall be done by institutional intermediaries only.

Section 7. Reinsurance. - For purposes of this pilot testing, all participating non-life insurance companies shall reinsure a minimum of 10% of the risks written under the pilot, and as per its reinsurance program to the National Reinsurance Corporation of the Philippines (NATRe). Facultative placements shall be reinsured only with the accredited reinsurer under this pilot program.

The foregoing notwithstanding, the pertinent provisions of Circular Letter No. 2015-54 dated 16 October 2015 on the “Adoption and Implementation of Enhanced Microinsurance Regulatory Framework” shall be applicable insofar as the cession of microinsurance risk is concerned.

Section 8. Loss Assessment and Payment. - The loss assessment for indemnity-based products offered under the pilot shall be done by individuals suitably qualified and trained for assessing agriculture losses. Adjusters used by PCIC shall be deemed qualified. A list of such trained and qualified loss adjusters shall be submitted by the participating non-life insurance company to the IC in advance. The foregoing notwithstanding, the IC may issue specific training requirements for adjusters in a separate issuance.

All losses reported under the policies issued under the pilot shall be disposed and payable claims shall be paid to the policyholders within a period of thirty (30) days from the reporting of the loss to the insurer or the intermediary for regular products. For microinsurance products, the claims shall be payable within ten (10) working days upon submission of complete documents for parametric-based microinsurance products and within twenty (20) working days upon submission of complete requirements in the case of catastrophic event. Claim payments can

also be made through digital modes of funds transfer, authorized by the Bangko Sentral ng Pilipinas.

Section 9. Use of Technology. - Non-life insurance companies under the proposed pilot shall be allowed to adopt insurance technology (InsurTech) innovations in their operations with regard to underwriting, loss assessment, claims payment, value added services, insurance literacy or any other aspect, subject to IC's review and prior approval. In such cases, the non-life insurance companies seeking to adopt InsurTech innovations may submit a formal proposal in accordance with Circular Letter No. 2020-73 dated 14 June 2020 or the "*Guidelines on the Adoption of A Regulatory Sandbox Framework for Insurance Technology (InsurTech) Innovations*" along with the proposal referred to in Section 3 of this Circular Letter.

Section 10. Agriculture Insurance Literacy. - The participating non-life insurance company shall impart comprehensive and gender-sensitive insurance and digital literacy tailor-fitted to the needs of potential male and female clients. During the course of the pilot, the non-life insurance company shall submit periodic reports in this regard to IC, in support of the financial literacy initiatives of the Consumer Protection Education Committee under the Financial Sector Forum (FSF).

Section 11. Mandatory Reporting. -The successful Applicants shall mandatorily submit semi-annually a written report on the progress of the pilot to this Commission. The Commission may also require the successful Applicants to submit additional documents, if needed, to clarify matters.

If any concern brought to the attention of this Commission requires the modification, improvement, or enhancement of the plans or products contained in the application, as accompanied by relevant proof, such modification, improvement, or enhancement may only be adopted and/or implemented upon request and subsequent approval of this Commission.

The approval of the application and the corresponding products, as set out in Sections 3 and 4 of this Circular Letter, notwithstanding, the Commission may revoke or suspend such approval if warranted upon review of the reports submitted by the successful Applicants or of any other concern that may be brought to the attention of this Commission.

Section 12. Special Audit. - The IC may, if it deems fit, institute a special audit of the insurance portfolio covered by the pilot through a 3rd party and lay down the terms of reference for such audit, during the implementation of the pilot or at any time thereafter.

Section 13. Conclusion of Pilot. - For purposes of this pilot, the duration of the pilot program shall be limited to 5 years renewable at the option of the IC.

The REPD, with the help of the TWG, shall evaluate the effectiveness of the pilot program. After the completion of the pilot period, as mentioned and approved under Section 3, the IC may:

- i. Conclude the pilot, in which case, all the policies issued under this Sandbox Regulation shall lapse after the completion of their respective period of insurance; or
- ii. Allow the extension of pilot to a further date; or
- iii. Require the migration of policies issued under the Sandbox Regulation into a comprehensive regulatory framework for agriculture insurance to be notified by then.

Section 14. Separability Clause. - If any provision of this Circular Letter shall be held unconstitutional or invalid, the other provisions not otherwise affected shall remain in full force and effect.

Section 15. Effectivity. - This Circular Letter shall take effect immediately.

DENNIS B. FUNA
Insurance Commissioner