



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

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CIRCULAR LETTER

TO: All Insurance and Pre-need Companies, Mutual Benefit Associations, Cooperative Insurance Societies, Professional Reinsurance Companies, Insurance and Reinsurance Brokers, Insurance Agents, Pre-need Counselors, General Agents Doing Business and Operating in the Philippines

SUBJECT: Adoption and Implementation of Enhanced Microinsurance Regulatory Framework

WHEREAS, a Technical Working Group for Enhanced Microinsurance Regulatory Framework was created composed of representatives of the Insurance Commission (IC), Department of Finance (DOF), other government agencies, and private sectors with the support of Asian Development Bank under its Improved Capacity to Develop Microinsurance Product ADB-JFPR Capacity Building for Microinsurance Project;

WHEREAS, the Technical Working Group has finalized the Enhanced Microinsurance Regulatory Framework;

WHEREAS, the Enhanced Microinsurance Regulatory Framework will enhance the regulatory environment for microinsurance in order to broaden the scope and deepen the outreach of microinsurance providers without sacrificing their viability and sustainability, and protect the consuming the public;

WHEREAS, the Enhanced Microinsurance Regulatory Framework provides an improved policy and regulatory environment that will clarify and delineate the roles and functions of microinsurance regular agents, brokers and distribution channels, guidelines on product bundling and on transfer of risks among local and foreign insurance entities;

WHEREAS, the Insurance Commission shall issue circulars and guidelines defining the distribution channels and its operations;

WHEREAS, the Insurance Commission may issue such other guidelines as it may deem necessary to enforce the Enhanced Microinsurance Regulatory Framework.

NOW, THEREFORE, pursuant to the power vested in me by Section 437 of the Insurance Code, as amended by Republic Act No. 10607, the attached Enhanced Microinsurance Regulatory Framework is hereby adopted for the guidance of all the regulated entities and persons under the Insurance Commission.


EMMANUEL F. DOOC
Insurance Commissioner

Enhanced Microinsurance Regulatory Framework

A. Government Policy on Microinsurance

1. On January 2010, the Government launched the Regulatory Framework for Microinsurance that “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 also identifies and promotes “a system that will protect the rights and privileges of those who are insured”.
2. Following the launching of the Regulatory Framework for Microinsurance, the Insurance Commission (IC), the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC) and the Cooperative Development Authority (CDA) issued several government regulations and circulars to implement the Framework, among which are the following:
 - a. IC Memorandum Circular No. 1-2010 “Regulations for the Provision of Microinsurance Products and Services”;
 - b. Joint IC-CDA-SEC Memorandum Circular No. 1-2010 “Defining Government’s Policy on Informal Insurance Activities”;
 - c. Joint IC-CDA-SEC Memorandum Circular No. 2-2010 “Guidelines on the Treatment of Funds Collected from Informal Insurance Activities”
 - d. BSP Circular No. 683 “Marketing, Sale and Servicing of Microinsurance Products”;
 - e. IC Circular Letter No. 5-2011 “Performance Standards for Microinsurance”
 - f. IC Circular Letter No. 6–2011 “Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents”

- g. IC Circular 39-2011 “Re-approval of microinsurance products”
 - h. IC Circulars 15 to 18 – 2013 on Alternative Dispute Resolution Mechanism for Microinsurance.
3. As one of the Government’s key reform strategies on financial inclusion, Chapter 6 of the Philippine Development Plan of 2011-2016 identified microinsurance as one of the “alternative products” and “financial services” that will have to be promoted in unserved and underserved areas of the country; and
 4. In 2013, microinsurance was institutionalized in the country’s laws with the enactment of Republic Act No.10607 (An Act Strengthening the Insurance Industry) that increases the premium and coverage limits of a microinsurance product and grants the Insurance Commissioner the authority to issue rules and regulations on microinsurance.

B. Current situation

5. The insurance industry has responded well to Government’s initiative to encourage the private sector to provide simple and affordable risk protection products and services tailor-fitted to the needs of the low-income and informal sectors.
6. In the “Landscape of Microinsurance in Asia and Oceania 2013” study conducted by MunichRe Foundation, the German Development Cooperation (GIZ) and the Microinsurance Network, the Philippines was ranked first (1st) in terms of microinsurance coverage ratio to total population registering a ratio of almost 20%.
7. In the “Global Microscope 2014 – The enabling environment for financial inclusion” study of the Economist Intelligence Unit (EIU), the Philippines was cited as one of the leaders in the regulation of microinsurance. This enabled the Philippines to place 3rd in the overall ranking among 55 countries with the best enabling environment for financial inclusion.
8. As of end 2013, the number of covered microinsurance clients reached almost 28 million Filipinos served by 35 commercial insurance entities (18 life and 17 non-life), two of which are cooperative insurance societies, and

22 mutual benefit associations (MBAs), with a total of 89 IC-approved microinsurance products.

9. In spite of these recent positive developments, it is important to further accelerate growth to realize the vision of protecting the majority of the poor with microinsurance. The experience of typhoon Haiyan (Yolanda) in 2013 demonstrated that microinsurance was effective in providing relief to over 120,000 affected families. However, it also highlighted the urgent need for broader and deeper microinsurance coverage since the majority of the affected by the typhoon did not have any coverage at all.¹
10. Microinsurance brokers/agents seek to expand their role in product development. This will catalyze innovation and allow for better product customization to meet the varied needs of underserved and unserved market segments.
11. In the interest of increasing market penetration, providers seek clearer regulations to guide them on how microinsurance products may be bundled. In particular, the roles and responsibilities of the lead provider vis-à-vis the other providers, intermediaries, distribution channels and other parties, involved and the insured party require amplification.
12. To provide better risk protection to more low-income Filipinos, microinsurance providers need ready access to co-insurers and reinsurers that can accept microinsurance risk beyond their prudential capacity. The experience of typhoon Haiyan (Yolanda) highlighted the necessity for more robust reinsurance covering large scale events.
13. Mutual benefit associations (MBAs) are exposed to large scale risk events. Larger MBAs have multi-regional and national exposure while members of the smaller ones are concentrated in only one or two regions. Some MBAs require catastrophe reinsurance to reduce their vulnerability to large scale events. There are currently no guidelines on how MBAs can access appropriate reinsurance.
14. Microinsurance providers seek clarity with respect to the types of reinsurance arrangements they are permitted to develop with other providers and reinsurers, both foreign and local.

¹ Reference to the GIZ-MiN Yolanda study report

15. Therefore, to further deepen outreach and expand accessibility, and provide the mechanism for sharing of risks faced by microinsurance providers particularly in the face of catastrophic and disastrous events, there is an urgent need for Government to provide clarity in a number of areas particularly on the roles and responsibilities of brokers/agents, bundling of products, and reinsurance.

C. Vision: Relevant, Responsive and Affordable Microinsurance

16. The vision is to enhance the regulatory environment for microinsurance in order to broaden the scope and deepen the outreach of microinsurance providers without sacrificing their viability and sustainability, and protect the consuming public.

D. Objectives of the Framework

17. The enhanced framework shall provide an improved policy and regulatory environment that supplements the existing 2010 Regulatory Framework on Microinsurance that will:

- a. Clarify and delineate the roles and functions of microinsurance regular agents, general agents, brokers, and distribution channels, outline their respective duties and responsibilities, their role in delivery mechanisms, and their responsibility in cases of claims disputes;
- b. Establish rules on product bundling to encourage microinsurance providers to innovate and design products and services tailor-fitted to the needs of their clientele;
- c. Provide guidelines on transfer of risks among local and foreign insurance entities to promote reinsurance coverage of microinsurance products and services; and
- d. Promote and encourage the profession of MI agents and brokers.

E. Strategies to be pursued

18. To ensure that the vision and objectives of the enhanced framework are realized, the following major strategies are undertaken:

- a. Development of clear policies that will guide the conduct of microinsurance agents, brokers, and distribution channels in the market while ensuring that clients are well informed of the product and their rights and privileges;
- b. Formulation of guidelines on product bundling to encourage microinsurance providers to make available innovative and responsive products; and
- c. Establishment of guidelines on transfer of risks to promote risk sharing among microinsurance players (providers and reinsurers), thereby increasing insurance coverage and capacity of microinsurance institutions.

F. Scope of the Framework

19. The Enhanced Framework covers the provision of microinsurance 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.

G. The Enhanced Framework

MICROINSURANCE (MI) AGENTS/BROKERS

20. MI Agents and Brokers duly licensed by the IC shall comply with all the requirements and conditions specified under the provisions of RA 10607 (Insurance Code, as amended).

21. Definition of MI Agents and Brokers

- a. As a general rule, MI Agents and Brokers are only allowed to do business related to microinsurance products and services and shall not under any circumstances be involved in any transaction involving

traditional insurance products and services, unless granted license as a regular agent/broker.

- b. A **microinsurance regular agent** shall be an individual or an entity duly licensed by the IC as life and/or non-life microinsurance agent under IC Circular no. 6-2011 dated February 15, 2011, representing the interests of the MI providers. The MI regular agent may represent and partner with one life insurance and/or up to seven non-life insurance entities. An MI regular agent, shall:
- i. Solicit/sell individual or group microinsurance products carried by its provider-partners;
 - ii. Perform document processing functions on behalf of its MI provider-partners; and
 - iii. Assist claimants in the preparation of microinsurance claims documentation requirements.
- c. A **microinsurance general agent** shall be an entity duly licensed by the IC representing the interests of MI providers. MI general agents may represent and partner with several life or non-life entities providing microinsurance products and services. In addition to the functions of MI regular agents under Section 21(a) above, a microinsurance general agent, upon authority granted by the MI provider, may perform any or all of the following:
- i. Assist the insurance provider-partner in designing microinsurance products;
 - ii. Develop, formulate, design or analyze business plans for MI providers;
 - iii. Perform outsourcing functions such as collections, training of MI individual agents, database management, on behalf of its microinsurance provider-partners;
 - iv. Advance the claims payment to clients;

- v. Receive complaints, summons, notices and other legal processes for and in behalf of the insurance companies in connection with actions or legal proceedings against such companies.
- d. A **microinsurance broker** shall represent the interests of clients MI brokers may partner with several life and non-life insurance entities and in addition to the applicable functions of MI regular and general agents, MI brokers shall determine the microinsurance needs of existing or potential clients and may perform any or all of the following:
- i. Design products;
 - ii. Apply directly with the IC for the registration of a developed MI product prior to identification and acceptance of a provider of such MI product, provided however that sale/solicitation of the registered product shall be done only upon approval of the IC;
 - iii. Identify and negotiate with insurance providers for the underwriting of the developed products.
22. In cases where an entity applies for an MI general agent or broker license, only one Certificate of Authority will be issued to the entity. However, they should be able to identify, together with the application for licensing, the responsible and accountable official/s within the entity. These officials shall be referred to as **agent managers** in the case of MI general agents, and **soliciting officials** in the case of brokers, who shall all be licensed by the IC. The IC shall prescribe minimum qualification requirements of agency managers and soliciting officials.
23. In cases where there is no Agent Manager/Soliciting Official due to any reason whatsoever, the licensed entity shall notify the IC and nominate a qualified replacement for the Agent Manager/Soliciting Official within five (5) days from date of vacancy for the approval of the IC. Unless such vacancy has been filled, the function of the entity as a General Agent/Broker shall be temporarily suspended and no new business should be undertaken.

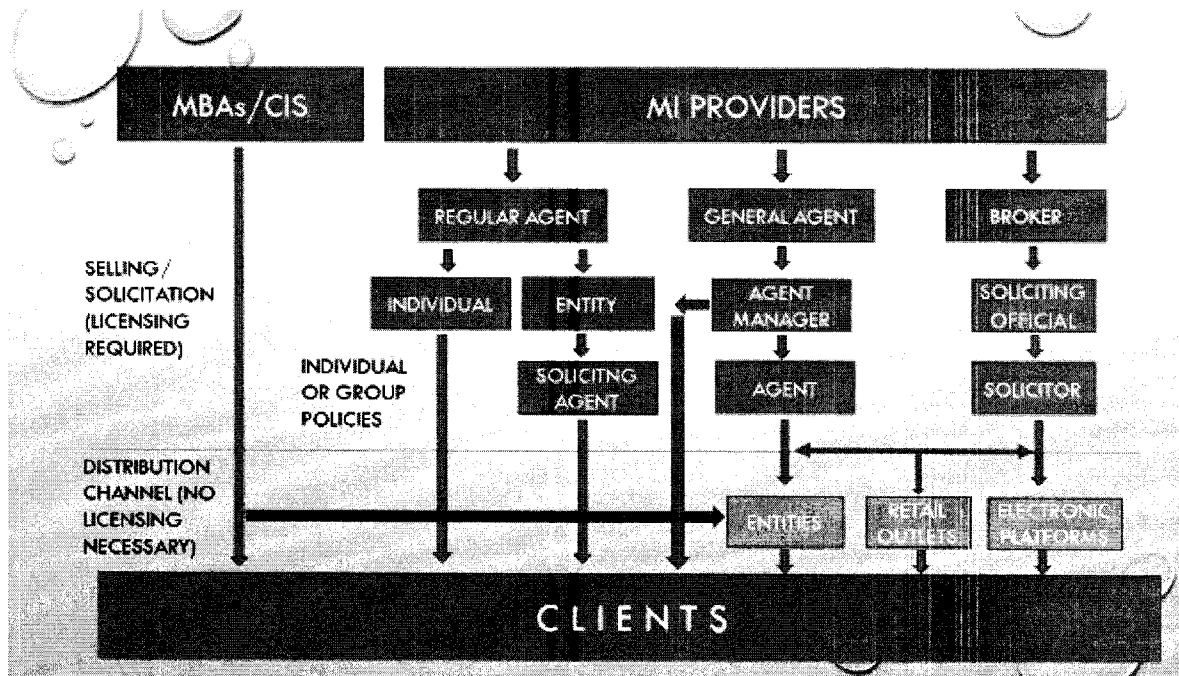
24. Should the general agent or broker have nationwide operations, the general agent or broker shall identify and designate additional agent managers/soliciting officials (at least one each for Luzon, Visayas, and Mindanao) who shall have authority and responsibility for the operations of their respective area.
25. All persons directly employed or contracted by the entity to sell/solicit microinsurance products must fulfill the qualifications and licensing requirements of MI agents/brokers as prescribed by the IC.
26. General agents and brokers may employ innovative distribution mechanisms or services such as the use of retail outlets and electronic platforms or make institutional arrangements with entities, organizations and companies to distribute microinsurance products and services (Microinsurance Distribution Channels).
27. MI distribution channels shall only be performing functions related to distribution of microinsurance on behalf of a licensed microinsurance agent or broker and shall not require licensing from the IC. However, general agents and brokers shall designate duly-trained agents and solicitors, respectively, who shall all be licensed by IC, to be in charge of the selling/solicitation of microinsurance products in each of the distribution channels.
28. Any act including omissions or misrepresentations done by MI distribution channels shall be the sole responsibility of the general agent or broker concerned and shall be subject to regulatory sanctions of the IC.
29. For transparency and protection of clients, MI contracts and Certificates of Cover (COC) shall bear the business address and contact information (phone, cell phone and email address) of the following:
 - a. MI Provider
 - b. Agent/Broker
 - c. Distribution channel

30. The table below summarizes the basic similarities and differences among MI regular agents, general agents and brokers.

Process/Activities/Services	Regular Agent	General Agent	Broker
Representation	Insurance entity	Insurance entities	Clients
Number of insurance partners	<ul style="list-style-type: none"> Life: one company Non-life: up to seven companies 	No Limits	No limits
May design products	No	In collaboration with the insurer	Yes
Business plan development	No	Yes	Yes
Evaluation of risk	No	No	Yes
Administration	Document processing only	Yes	Yes
Selling	Yes	Yes	Yes
Claims	<ul style="list-style-type: none"> Documentation only 	<ul style="list-style-type: none"> Documentation and evaluation Payments if authorized by the insurance company 	<ul style="list-style-type: none"> Documentation and evaluation Payments if authorized by the insurance company
Use of distribution channels	No	Yes	Yes

31. Regardless of the arrangement between brokers/agents, distribution channels and the MI provider, it is the primary obligation of the MI provider to pay the claims and to ensure that the turn-around time in the settlement of claims be strictly enforced. Should there be a complaint in the non-payment of claims, the insurance company should automatically be included as a party.

32. Shown below is a graphic illustration of the distinction between and among the agents/general agents and brokers, and potential distribution channels:



REINSURANCE – CESSION OF MICROINSURANCE RISK:

33. A microinsurance provider may cede a portion of the risk that it underwrites to a domestic insurance company, to a cooperative insurance society, or to a reinsurance company provided that these receiving entities are duly licensed by the IC to do business in the Philippines.
34. A mutual benefit association is not permitted to accept any insurance risk that has been underwritten by another microinsurance provider.
35. More specifically, life microinsurance risk may only be ceded to a life insurance company, or to a reinsurance company.
36. Non-life microinsurance risk may only be ceded to a non-life insurance company or to a reinsurance company with the exception of accident, health, and disability risk which may also be ceded to a life insurance company.

37. In all cases, however, a non-life insurance company is not permitted to accept risk of microinsurance products with duration greater than three years.

38. The table below summarizes the types of microinsurance risks that can be ceded to each type of licensed entity.

Type of microinsurance risk	Life insurance company	Non-life insurance company	Reinsurance company	Mutual Benefit Association
Life products	yes	no	yes	no
Non-life other than health, accident, and disability with duration not exceeding 3 years	no	yes	yes	no
Health, accident, and disability with duration not exceeding 3 years	yes	yes	yes	no
Health, accident, and disability with duration longer than 3 years	yes	no	yes	no

39. To encourage prudent selection of risks, the IC shall set the minimum retention of MI providers per individual risk.

40. Microinsurance risk may be ceded to a foreign-licensed insurance risk-bearing entity provided that:

- a) The foreign-based reinsurance entity is represented by an appointed resident agent duly registered with the IC, provided, however, the said appointed resident agent must not in any way, directly or indirectly, be a party to any transaction involving the risk being ceded;
- b) If a block of risk is ceded through a local reinsurance broker, the broker involved shall not also act as the appointed resident agent of the foreign accepting company;

- c) As per provisions of IC Circular Letter 2014-42, prior approval of the treaty or agreement by the IC must be obtained before a microinsurance ceding company may enter into reinsurance treaty or agreement involving remittances of foreign exchange with a foreign company.
- d) At least ten percent (10%) of the microinsurance risk being ceded to a foreign company shall be offered to National Reinsurance Corporation of the Philippines (PhilNaRe), notwithstanding that PhilNaRe is entitled to refuse the offer in writing.
- e) The reinsurance agreement shall clearly specify that the reinsured portions of all microinsurance claims are payable by the reinsurer to the ceding company within ten (10) calendar days upon submission by the ceding microinsurance entity of complete documentary requirements. Documentary requirements must be simple and should conform to Annex A of Insurance Memorandum Circular (IMC) 1-2010.

BUNDLING OF MI PRODUCTS

- 41. IMC 1-2010 permits the bundling of microinsurance products provided that the bundled product is:
 - a. Comprised only of microinsurance products as defined in the Circular;
 - b. Each of the components is underwritten separately; and
 - c. The contract specifies that the lead microinsurance provider will assume liability for the entire bundle.
- 42. The following provisions shall supplement those provided for under IMC 1-2010:
 - a) Product bundling is defined in this framework as integration of two or more microinsurance products or services which are underwritten by two or more insurance providers under one policy contract. In case

there is a composite provider, the combination of two or more coverages will be regarded as a composite product.

- b) A bundle may consist of two or more life microinsurance products underwritten by separate providers; two or more non-life microinsurance products underwritten by separate providers; a combination of life and non-life microinsurance products underwritten by separate providers; or a combination of microinsurance products underwritten by separate microinsurance providers.
- c) The names of all the insurers involved in a bundle shall be identified in the policy contract and in the certificate of cover in the case of group insurance.
- d) The Lead Insurer/Administrator of the bundled MI product must be clearly identified. Said lead insurer/administrator shall be solely responsible for the efficient and effective implementation and administration including handling of disputes.
- e) A separate agreement must be made among all the providers involved in a bundle specifying the roles and responsibilities of each of the parties involved. The provisions of the said agreement shall:
 - a. Be distinct and independent of the provisions of the policy contract between the Lead Insurer and the Client.
 - b. In no way affect the obligations and responsibilities of the providers to the client.
 - c. Clearly specify a mechanism to settle disputes among the providers.
- f) The policy contract and the agreement among the providers involved in the bundling of the MI product shall require prior approval by the IC before the bundled product is sold in the market.
- g) In case of claims disputes, the lead insurer shall ensure that the Alternative Dispute Resolution for Microinsurance (ADReM) guidelines will be followed. However, if the ADReM mechanism cannot be implemented, an alternative redress mechanism clearly

defined in the policy contract or as prescribed by the Insurance Commission and or a Self-Regulatory Organization (SRO) shall apply.