



A HANDBOOK ON MICROINSURANCE

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INSURANCE COMMISSION

1071 UNITED NATIONS AVENUE, ERMITA, MANILA

MESSAGE FROM THE INSURANCE COMMISSIONER

Insurance has been proven, time and again, to be an effective tool that mitigates an individual's costs and expenses in the event of a contingent or unknown peril. However, one challenge about regular insurance products is its affordability.

With the formalization and further enhancement by the Insurance Commission on Microinsurance products, even those who are earning below the minimum wage can have the opportunity to have insurance protection for their lives and property.

However, everyone needs to understand that microinsurance literacy and awareness is an all-encompassing initiative and not only for the poor. We need to instill consciousness of this program to the various members of our society. The development of microinsurance in the Philippines brings a relatively new horizon in the business side because of the commercial opportunity it brings and at the same time, the benefit or incentive that a lot of people will be deriving from it. Amplifying these worthwhile initiatives would draw a great potential to uplift the lives of many people and bring about an inclusive protection.

Through this handbook, we can further help the public, especially those who are earning below the minimum wage, to have an understanding of basic insurance and microinsurance policies. This handbook also serves as a start to have a unified vision in developing a conducive atmosphere to foster the growth and further development of microinsurance.

We give credit and acknowledgement to all stakeholders who cooperated and associated the Insurance Commission in creating various regulatory frameworks throughout the years.

To all microinsurance stakeholders, this is one small step towards our dream of a financially-inclusive Philippines.

ATTY. DENNIS B. FUNA
Insurance Commissioner



ACKNOWLEDGEMENT

The Insurance Commission acknowledges the various government agencies, private companies, non-government associations and individuals who ensure that our lives are better because of the wide range of financial and insurance products and services that we can access.

This handbook is not only a collection of frameworks, circulars and other related publications but a collection of the sacrifice, wisdom and passion of the individuals who worked for the success of the industry, determined largely by the number of lives that Microinsurance uplifted.

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INTRODUCTION

The Philippines' vulnerability to climate change and disasters have been more and more apparent over the years. This vulnerability stems mainly from the country's geographic exposure. In the middle of this exposure, it is the poor people who are usually affected and usually leaves them with less opportunities to start over and rebuild their lives after the occurrence of disasters.

Through the years, the country leaders have sought remedies to address poverty.

In 1997, the government launched the National Strategy for Microfinance which articulates the vision of a viable and sustainable micro financial market for the poor where the private sector plays a major role in the provision of financial services to the poor and the government provides a supportive policy environment to the market. Microfinance is generally defined as the provision of a broad range of financial services (i.e., savings, credit, payment transfers, remittances, and microinsurance) to the low-income sector. Unfortunately, with practice of informal insurance activities, there became a prevalence of the existence of risk to consumer protection, risk to financial stability of the MFIs and reputational risk to the microfinance industry.

In 2006, the Insurance Commission issued Insurance Memorandum Circular (IMC) No. 9-2006 or **The Microinsurance Regulation and Declaration of Policy Objectives**, defining the features of a microinsurance product and setting the basic policies on the provision on microinsurance. The IMC also paved way for the establishment of Microinsurance Mutual Benefit Associations (Mi-MBAs). Wanting to involve other potential providers, multi-lateral groups and different stakeholders persisted to cultivate it further.

In January 2010, two (2) important documents were signed and issued: the **National Strategy for Microinsurance** and the **Regulatory Framework for Microinsurance**. The National Strategy for Microinsurance defined the vision, objectives, roles of the various stakeholders, and key strategies to be pursued in enhancing access of the low-income sector to insurance products and services. On the other hand, the Regulatory Framework for Microinsurance establishes the policy and regulatory environment to encourage, enhance, and facilitate the safe and sound provision of microinsurance products and services by the private sector. These were issued through the coordination of the Department of Finance–National Credit Council and the IC and with technical assistance from the Asian Development Bank (ADB) and the German Agency for International Cooperation (GIZ).

During the same year, a joint **IC-CDA-SEC Memorandum Circular (MC) 01-2010 Defining Government's Policies on Informal Insurance Activities**, and joint **IC-CDA-SEC Memorandum Circular (MC) 02-2010 Guidelines on Treatment of Funds Collected from Informal Insurance Activities** were issued requiring all entities offering informal insurance-like activities to formalize their business through the following options: 1) establish an insurance entity duly licensed by the IC, 2)

partner with a licensed commercial insurance companies that will provide insurance coverage to its members, 3) join a Cooperative Insurance Society (CIS) or Mi-MBA.

In January 2011, **The Roadmap to Financial Literacy on Microinsurance** was issued to specify key strategies and measures to ensure institutionalization of microinsurance literacy with the vision to an insurance-oriented society. This road map paved way to: 1) the formulation of key messages on the role of stakeholder groups to the development of the microinsurance market; 2) the development of training and communication materials to be used by various stakeholders, 3) training of microinsurance advocates, and 4) roadshows and public seminars in key cities across the country.

To ensure utmost customer protection, in 2012, the **Alternative Dispute Resolution Framework for Microinsurance** which entails all entities engaged in microinsurance business to follow mediation-conciliation processes for dispute resolutions. Customized guidelines were set based whether the providers were commercial insurance companies, Cooperative Insurance Societies (CIS) or MBA.

To warrant the Microinsurance sustainability, a set of **Performance Indicators and Standards** were also prescribed focusing on six (6) major categories acronymed SEGURO (Solvency and Stability, Efficiency, Governance, Understanding of the product by the insured, Rate of growth, and Outreach) which shall be the basis for evaluating and monitoring the performance of microinsurance players.

In 2015, the Microinsurance Industry has reached new heights through the issuance of the **Enhanced Microinsurance Regulatory Framework on Microinsurance** that specifies the roles and functions in the business process/value chain of regular agents, general agents and brokers, expansion of possibilities in the provisions of Product Bundling and provides guidelines cession of risks among local and foreign insurance entities.

During the same year, with the desire to encourage greater engagement by different players through product innovations, the **Micro Pre-Need Regulatory Framework** and the **Agriculture Microinsurance (Micro Agri) Framework** were issued with future events such as death, old age and children's education, the Micro Pre-Need Framework aims to prepare our fellow Filipinos on certain future events that will require financial outflow – death, old age and our children's education. The Micro Agri aims to provide risk protection to Filipino farmers and fishermen. In 2016, the **Microinsurance Health Framework** was issued to ensure provision of coverage and easier access to a wide range of innovative Micro Health products with the intent of complementing the Universal Health Care System.

In December 2016, the first of its kind **Framework on Distribution Channel** was issued by the Insurance Commission. One of the Framework's objectives is to expand the accessibility of affordable insurance protection/microinsurance, mounting deeper and broader customer awareness and increasing interest among insurance providers, insurance agents and brokers. It specifies acceptable distribution channels that the providers can utilize such as retail outlet, service outlet, electronic platform, and other similar channels.

As the above undertakings see completion and the implementation stages commence and progress, it is hoped that support from the stakeholders will be carried on. Only then can microinsurance really take off as an important tool in helping the low income group achieve financial security in the face of diverse risks that confront their lives, properties, and livelihood. This also ensures that the Philippine's coping mechanism on climate change disasters will be stronger than ever.

AN OVERVIEW OF MICROINSURANCE

WHAT IS MICROINSURANCE?

Under Section 187 of Republic Act No. 10607, Microinsurance is defined as “a financial product or service that meets the risk protection needs of the poor where:

- (a) *The amount of contributions, premiums, fees or charges, computed on a daily basis, does not exceed seven and a half percent (7.5%) of the current daily minimum wage rate for nonagricultural workers in Metro Manila; and*
- (b) *The maximum sum of guaranteed benefits is not more than one thousand (1,000) times of the current daily minimum wage rate for nonagricultural workers in Metro Manila.”*

However, it must be emphasized that **microinsurance is an insurance product**. Just like any insurance product, it is a contract and hence, a legal document.

Under Section 2(a) of Republic Act No. 10607, insurance contract is defined as “an agreement whereby one undertakes for a consideration to indemnify another against loss, damage or liability arising from an unknown or contingent event.”

The term **insurance policy** or **policy** is the term interchangeably used for insurance contracts, whether it be life insurance, non-life insurance or microinsurance contracts.

Before going to the other mandatory features and characteristics of a microinsurance policy, it is important that an individual must know and understand the basic and essential elements/requirements of an insurance policy. The absence of any of the basic and essential elements/requirements can have different legal effects, as will be discussed in the subsequent topics.

There will be other terms in this handbook which are explained in their basic and practical sense so that the reader of this handbook will have a more concrete understanding of insurance in general and microinsurance.

THE PARTIES IN AN INSURANCE POLICY

Generally, the parties in a policy are the insurer and the insured. In some products, a beneficiary is also included in the policy. Listed below are as follows:

- **Insurer** – the party who promises to pay in case the insured peril occurs. It must be emphasized that an insurer must be licensed by the Insurance Commission before it can engage in insurance business.
- **Insured** – the party who applied for and to whom an insurance policy is issued to cover his life, property or the life of or property of other person/s

in whose life or property he has insurable interest or liability to other persons.¹ The insured is the one who enters into a contract with the insurer.²

- **Beneficiary** – a person, natural or juridical, who is often designated to receive the proceeds or benefits of an insurance policy in the event of the occurrence of an insured peril. A beneficiary is generally not a party to the policy in its strict legal sense unless the beneficiary is the also the insured.³

BASIC AND ESSENTIAL ELEMENTS/FEATURES OF AN INSURANCE POLICY

Since insurance policy is a contract, it must contain all of the basic and essential requirements of a contract under Article 1318 of the New Civil Code which are (a) Consent of the contracting parties; (b) Object certain which is the subject matter of the contract; and (c) Cause of the obligation which is established.

In addition to the requirement of the New Civil Code, the following elements must also be present:

1. The insured has an insurable interest;
2. The insured is subject to a risk of loss by the happening of the designated peril;
3. The insurer assumes the risk;
4. Such assumption of risk is part of a general scheme to distribute actual losses among a large group of persons bearing a similar risk; and
5. In consideration of the insurer's promise, the insured pays a premium.⁴

In the aforementioned elements/features, insurable interest and premium must be given of an equal importance in addition to the basic and essential requirements of the New Civil Code. **Generally, the absence of either the insurable interest or premium can be a ground for a denial of a claim in an insurance policy.**

Premium is the certain amount of money paid to the insurer by the insured. It is a consideration given by the insured so that the insurer will indemnify an insured in the occurrence of a covered peril. This is important because generally, any insurance policy will not be valid and binding without this. The insured must timely pay his or her premium so that when the insured claims the proceeds of the policy, it will not be denied by the insurer.

Insurable interest on the other hand, has two (2) distinct and separate features in life insurance and property insurance. It must be emphasized that **in case of life insurance products**, it is broad enough to include a person's life or any other person's life, in accordance with the conditions prescribed by law. **For property insurance**, it is broad enough to include any interest in property, real or personal, of such nature

¹ Timoteo B. Aquino, *Essentials of Insurance Law*, p. 26, 2014 edition.

² *Ibid.*

³ *Ibid.*

⁴ Aquino, *Supra.*, p. 10; citing Gulf Resorts, Inc. vs. Philippine Charter Insurance Corporation, G.R. No. 156167, 16 May 2005.

that a covered peril might directly affect the insured. In its practical sense, insurable interest answers the question “*what can be insured?*”

Sections 10 and 14 of Republic Act No. 10607 sets the parameter on the insurable interest in life and property insurance. The table below shows the difference:

LIFE INSURANCE (Sec. 10)	PROPERTY INSURANCE (Sec. 14)
Own life, his/her spouse and of his/her/spouses’ children	An existing interest
Any person on whom the insured depends wholly or in part for education or support, or in whom the insured has a pecuniary interest	An inchoate interest founded on an existing interest
Any person under a legal obligation to the insured for the payment of money, or respecting property or services, of which death or illness might delay or prevent the performance	An expectancy, coupled with an existing interest in that out of which the expectancy arises
Any person upon whose life any estate or interest vested in the insured depends	

The absence of an insurable interest in life or property insurance policy will make the insurance policy unenforceable⁵ which will lead to the denial of any claim in the insurance policy.

GENERAL CLASSIFICATION OF INSURANCE PRODUCTS

Many insurance products are currently available. However, **before these insurance products are sold, they must be approved first by the Insurance Commission** in accordance with Section 232 of Republic Act No. 10607.⁶

Insurance products are generally classified as **Life Insurance** and **Non-Life Insurance** products. Under Section 181 of Republic Act No. 10607, life insurance is defined as “*insurance on human lives and insurance appertaining thereto or connected therewith*”. Some of these life insurance products are called Term Life Insurance, Endowment Policy, Whole Life Insurance, Credit Life Insurance, etc. On the other hand, the law did not specifically define a non-life insurance product. By its classification however, non-life insurance products include various property insurance policies such as Fire Insurance, Marine Insurance, Compulsory Motor Vehicle Liability

⁵ Section 18, Republic Act No. 10607

⁶ “No policy, certificate or contract of insurance shall be issued or delivered within the Philippines unless in the form previously approved by the Commissioner, and no application form shall be used with, and no rider, clause, warranty or endorsement shall be attached to, printed or stamped upon such policy, certificate or contract unless the form of such application, rider, clause, warranty or endorsement has been approved by the Commissioner.”

Insurance (or Compulsory Third Party Liability Insurance), Casualty Insurance, etc. Hence, it can be deduced that, generally, non-life insurance products are any insurance policy that does not insure the life of an individual.

The discussed topics are basic but important matters in understanding insurance policies. The foregoing topics are also present in a microinsurance policy.

As a final reminder in buying an insurance policy, a prospective insured must always know if the entity offering any insurance products is approved by the Insurance Commission, the amount of premium to be paid, the benefit and the included and excluded perils. The insured ***MUST*** always read the policy so that he or she will know the required documents needed to be filed to the insurer when processing a claim, when the documents must be filed, etc.

MANDATORY FEATURES OF A MICROINSURANCE PRODUCT

Beyond its definition, microinsurance products and services are designed within the parameters set out by the law and regulations issued by the Insurance Commission so that even those who are earning below the minimum wage may have at least an opportunity to be insured and be protected against different risks. Just like any insurance products, microinsurance serves as a relief against the covered distress, misfortune or contingent events.

Since microinsurance products and services are intended to cater the low-income sector, the affordability of premium payments, simplicity and understandability are primordial considerations in designing these products.

Below are the mandatory features of microinsurance products in accordance with Republic Act No. 10607 and several regulations issued by the Insurance Commission:

1. The amount of contributions, premiums, fees or charges, 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; and
2. The maximum sum of guaranteed benefits is not more than one thousand (1,000) times of the current daily minimum wage rate for non-agricultural workers in Metro Manila.⁷
3. All microinsurance contracts shall clearly state the benefits and terms of coverage. In this regard, all microinsurance providers shall ensure the following:⁸
 - a. The contract provisions can be easily understood by the insured and printed in English and/or Filipino; and

⁷ Section 187, Republic Act No. 10607

⁸ Insurance Memorandum Circular No. 01-2010

- b. The documentation requirements are simple and the manner and frequency of collection of premiums, contributions, fees and charges coincide with the cash flows of the insured and are not onerous.

The following features are applicable to life and non-life microinsurance policies⁹:

1. 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.
2. Period of Cover – The term of the microinsurance contract shall be determined by the provider and shall depend on type of coverage.
3. Risk and Contingent Events Covered - A microinsurance policy may cover any of the following:
 - Death (may be bundled with memorial plan, mortuary or burial benefits);
 - Accident and illness;
 - Fire and other extended perils;
 - Calamities/disasters/catastrophic events (e.g. typhoon, earthquake, infestation, volcanic eruption, flooding and other convulsions of nature);
 - Casualty (e.g. personal accident, motor vehicle, and money security and payroll robbery); and
 - Other contingent events as may be determined by the concerned regulator.
4. 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.
5. Effectivity – A microinsurance contract becomes immediately effective only upon full payment of the first premium, contribution, fees or charges.
6. Claims Settlement – Claims for a microinsurance contract must be settled within ten (10) working days upon receipt of complete documents by the provided.
7. Dispute Resolution – Disputes related to microinsurance contract shall be settled initially through alternative dispute resolution mechanisms.

The features below apply to life microinsurance policies only:

1. 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.

⁹ Annex 1, *Key Features of Microinsurance Contract*, Ibid.

2. Contestability – The contestability period for a microinsurance contract shall be one (1) year.
3. Suicide Clause – The provider shall be liable if the insurance 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 provided will be limited to the return of premiums.

In the case of non-life microinsurance policies, the provider shall send notices to the microinsurance clients at least forty-five (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.

In addition, all microinsurance policies should contain the microinsurance logo shown below:



The table below shows the distinction between a regular insurance and a microinsurance products:

Table 1: Distinctions between Regular Insurance and Microinsurance Products

<i>Common Provisions Insurance Plans</i>	<i>Regular Insurance Products</i>	<i>Microinsurance Products</i>
Maximum Premium	No Limitation	7.5% of the current daily minimum wage rate in Metro Manila (per day)
Maximum Benefits	No Limitation	1,000 times the daily minimum wage rate in Metro Manila
Policy Contract	Full of complex conditions	Simple and easy to understand
Frequency of Premium Collection	Monthly, Quarterly, Semi-Annual, Annual	Daily, Weekly, Monthly, Quarterly, Semi-Annual, Annual
Grace Period	30 days/One month from premium due date	45 days from premium due date

Suicide Clause	Two (2) years from date of issue or last reinstatement of the policy	One (1) year from date of issue or last reinstatement of the policy
Claims Settlement	Generally, 30 - 90 days after submission of complete documents	Ten (10) working days after submission of complete documents
Contestability Period	Max of two (2) years from date of issue or last reinstatement of the policy	Maximum of one (1) year from date of issue or last reinstatement of the policy

CHAPTER 2

MICROINSURANCE PROVIDERS

Listed below are the types of entities that must have a Certificate of Authority or License by the Insurance Commission to engage in insurance business pursuant to the Section 193 of Republic Act No. 10607¹⁰:

- a) **Life Insurance Companies** – engages in the life insurance business and issues life insurance products.
- b) **Non-Life Insurance Companies** – engages in non-life insurance business and issues non-life insurance products.
- c) **Mutual Benefit Associations (MBAs)** – Any society, association or corporation, without capital stock, formed or organized not for profit but mainly for the purpose of paying sick benefits to members, or of furnishing financial support to members while out of employment, or of paying to relatives of deceased members of fixed or any sum of money, irrespective of whether such aim or purpose is carried out by means of fixed dues or assessments collected regularly from the members, or of providing, by the issuance of certificates of insurance, payment of its members of accident or life insurance benefits out of such fixed and regular dues or assessments¹¹
- d) **Cooperative Insurance Societies** – autonomous and duly registered associations of persons who may organize themselves into a cooperative insurance entity for the purpose of engaging in the business of insuring life and property of cooperatives and their members.¹²

It must also be emphasized that even though the foregoing companies were granted by the Insurance Commission a Certificate of Authority or License to engage in insurance business, they are not automatically allowed to sell any insurance products. As aforementioned in Chapter 1 of this Handbook¹³, all of the insurance products must be approved first by the Insurance Commission before they can be sold to the public.

There are legal consequences for any unlicensed or unauthorized transaction of insurance business. This may range from the imposition of an administrative sanction or fine to imprisonment for violating Republic Act No. 10607 and any other applicable provisions of Act No. 3815, as amended, or the Revised Penal Code.

In 2010, the Insurance Commission, Cooperative Development Authority and Securities Exchange Commission issued Joint Memorandum Circular No. 01-2010 that mandated that all informal insurance activities to be terminated . Said Joint

¹⁰ “No insurance company shall transact any insurance business in the Philippines until after it shall have obtained a certificate of authority for that purpose from the Commissioner upon application therefor and payment by the company concerned of the fees hereinafter prescribed.”

¹¹ Section 403 of Republic Act No. 10607

¹² Article 3 in relation to Article 105, Republic Act No. 9520

¹³ Page 3 of this handbook.

Memorandum Circular further gave any informal insurance providers the following options:

- Establish an insurance entity duly licensed by the Insurance Commission;
- Partner with a licensed commercial insurance companies that will provide insurance coverage to its members; or
- Join a Cooperative Insurance Society (CIS) or Mi-MBA.

CHAPTER 3

MICROINSURANCE SALES AND DISTRIBUTION

Circular Letter No. 2015-54 on the Adoption and Implementation of Enhanced Microinsurance Framework issued by the Insurance Commission on 16 October 2015 specified the roles, functions, responsibilities, and limitations of **microinsurance agents, general agents, and brokers**. These licensed intermediaries are expected to comply with all the requirements and conditions specified under the provisions of RA 10607 (Insurance Code, as amended) and other regulations issued by the Insurance Commission.

Microinsurance Agents and Brokers

Microinsurance Agents and Brokers are only allowed to transact business related to microinsurance products and services, prohibiting them to sell regular insurance products and services, unless granted license as a regular agent/broker.

As defined by the Circular Letter No. 2015-54:

- I. A **microinsurance regular agent**¹⁴ is an individual or an entity duly licensed by the Insurance Commission as life and/or non-life microinsurance agent, representing the interests of the microinsurance providers. The microinsurance regular agent may represent and partner with one life insurance and/or up to seven non-life insurance entities. An MI regular agent, shall:
 - a) Solicit/sell individual or group microinsurance products carried by its provider-partners;
 - b) Perform document processing functions on behalf of its microinsurance provider-partners; and
 - c) Assist claimants in the preparation of microinsurance claims documentation requirements.¹⁵

- II. A **microinsurance general agent** is defined as an entity duly licensed by the Insurance Commission representing the interests of microinsurance providers. Microinsurance general agents may represent and partner with several life or non-life entities providing microinsurance products and services. In addition to the functions of microinsurance regular agents, a microinsurance general agent, upon authority granted by the microinsurance provider, may perform any or all of the following:
 - a) Assist the insurance provider-partner in designing microinsurance products;
 - b) Develop, formulate, design or analyze business plans for microinsurance providers;
 - c) Perform outsourcing functions such as collections, training of microinsurance individual agents, database management, on behalf of its microinsurance provider partners;
 - d) Advance the claims payment to clients;

¹⁴ Circular Letter No. 2015-54 dated 15 October 2015, p. 5.

¹⁵ *Ibid.*

- e) 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.

- III. A **microinsurance broker** represents the interests of its clients. Microinsurance brokers may partner with several life and non-life insurance entities and in addition to the applicable functions, microinsurance brokers shall determine the microinsurance needs of existing or potential clients and may perform any or all of the following:
- Design products;
 - Apply directly with the Insurance Commission for the registration of a developed microinsurance product and acceptance of a provider of such microinsurance product, provided however that sale/solicitation of the registered product shall be done only upon approval of the Insurance Commission;
 - Identify and negotiate with insurance providers for the underwriting of the developed products.¹⁶

In sum, the table below shows basic similarities and differences between the microinsurance regular agents, general agents and brokers.

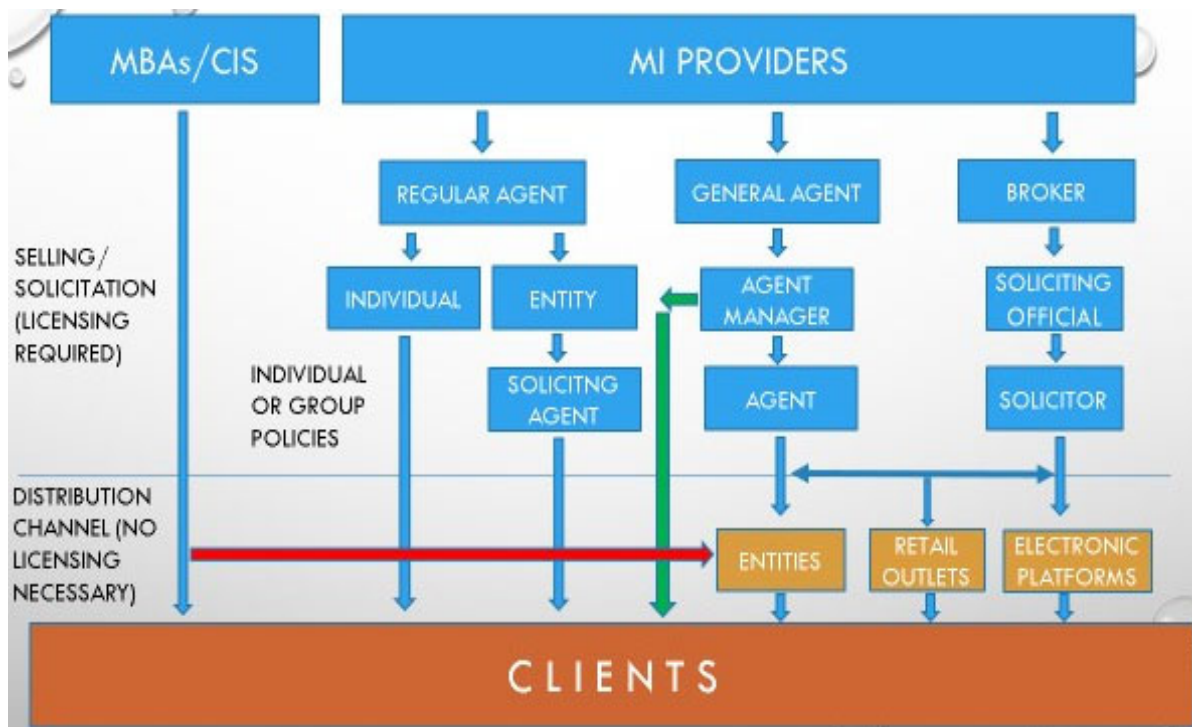
Table 1: Similarities and differences between Regular Agents, General Agents and Brokers

Process/Activities/ Services	Regular Agent	General Agent	Broker
Representation	Insurance entity	Insurance entities	Clients
Number of insurance partners	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	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

¹⁶ *ibid*, p. 6.

Shown below is an illustration of the distinction between and among the agents/general agents and brokers, and potential distribution channels:

Figure 1: Distribution of Microinsurance Products



Additional notes:

- Institutions engaged in microfinance activities can apply then be licensed as microinsurance agents/brokers, however, 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 or broker only sells microinsurance products to its individual members.
- The circular permits the utilization of innovative channels for distributing microinsurance products once registered. The partner agent/broker will need to closely supervise them, delegate only distribution tasks (except selling/solicitation), and assume full responsibility for any misconduct that the channels may commit¹⁷.

IV. In Circular Letter 2016-64, the utilization of Distribution Channels was allowed and granted the entities allowed to avail the services of a Distribution Channels the following, but not limited to, functions:

- a) Identify the acceptable distribution channels that may be contracted;
- b) Describe the permissible functions and activities of distribution channels;
- c) Lay out the responsibilities and market conduct of distribution channels and all parties involved upstream (term defined herein); and
- d) Prescribe measures to follow which will ensure that the rights of consumers are protected.

¹⁷ Circular Letter No. 2015-54 dated 15 October 2015, p. 4.

The following illustrates the differences on the distribution of Micro Risk Protection Products¹⁸:

Figure 2: Microinsurance Distribution Chains

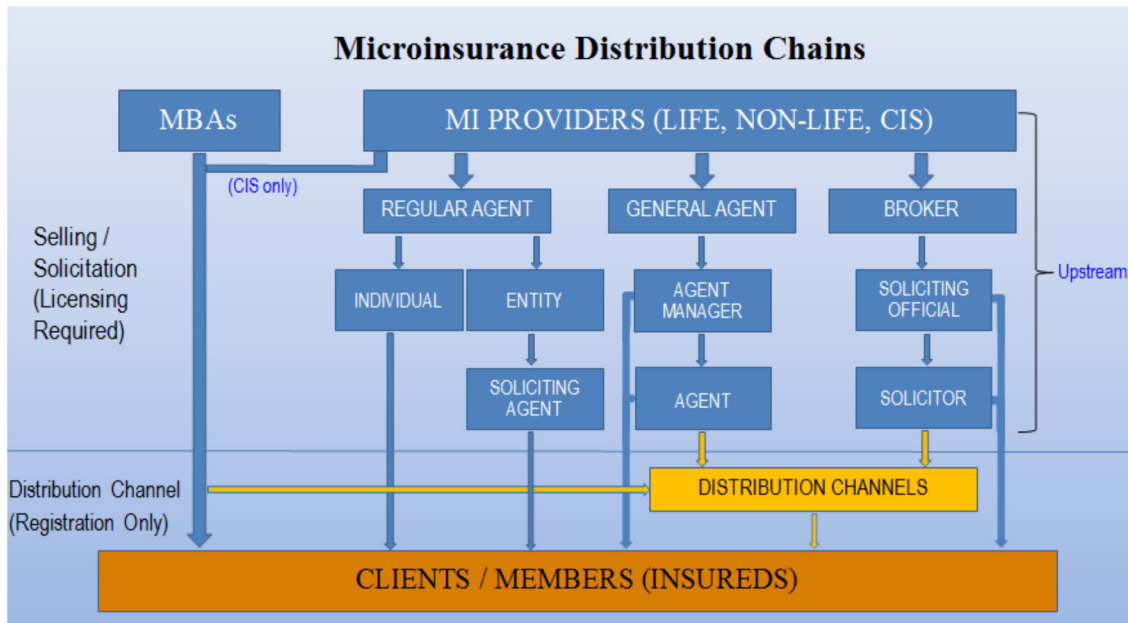
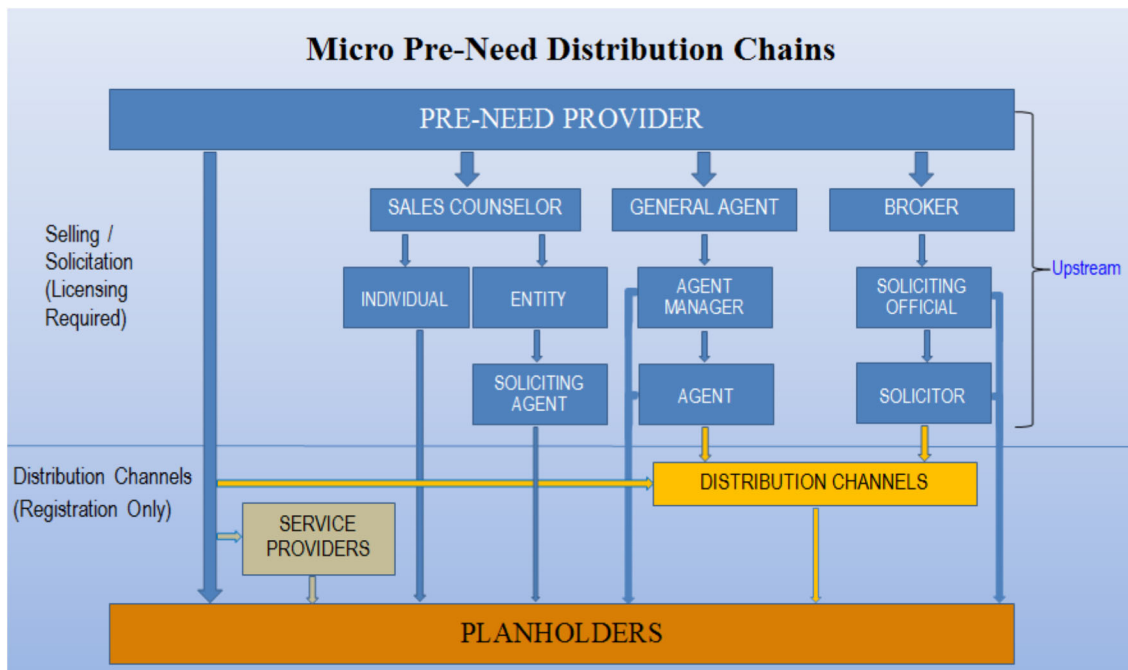
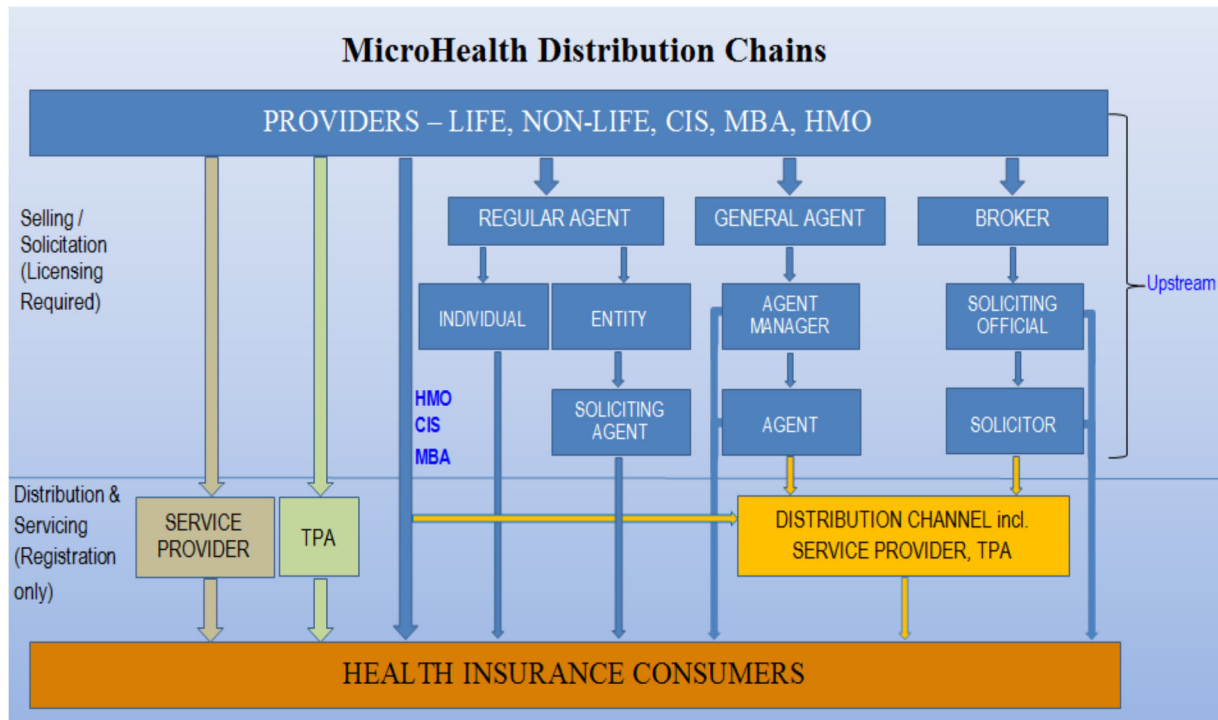


Figure 3: Micro Pre-need Distribution Chains



¹⁸ Paragraph 21 of Circular Letter No. 2016-64 defined the term *Micro Risk Protection Product* as:
a. Microinsurance as defined and conforming to Title 6, Section 187 of RA10607 (Insurance Code, as Amended), IC Insurance Memorandum Circular 1-2010, IC Circular Letter 2015-54, and other applicable IC circulars outlining the features, limitations, and scope of microinsurance products.
b. Agricultural microinsurance products (MicroAgri) defined in IC Circular Letter 2015-53;
c. Health microinsurance products (MicroHealth) per specifications in IC Circular Letter 2016-22; and
d. Micro pre-need products as described in IMC No. 2015-51.

Figure 4: Micro Health Distribution Chains



The following summarizes the activities that may or may not be delegated to the distribution channels:

Table 2: Sales and Distribution Activities

Micro Risk Protection Product Delivery Function or Activity	Allowed
Market research	Yes, except data analysis
Product development	No
Selling	No
Display of product information	Yes
Preparation of marketing materials	No
Information dissemination	Yes
Preparation of forms	No
Providing forms	Yes
Insurance policy and account maintenance	Yes, to the extent delegated by the channel contractor
Enrollment	Yes
Pre-qualifying applicants/applications	Yes, as may be approved by the IC
Facilitation of Premium Payment	Yes
Persuasive collection	No
Premium acceptance	Yes
Notification of Renewal or Lapse	Yes
Claims assistance	Yes
Claims processing	No
Claims benefit determination	No
Cancellation of coverage	Yes
Receiving commission	No
Receiving service/admin. Fees	Yes
All other distribution activities	Yes, to the extent delegated by the channel contractor and as allowed by the Insurance Commission

OTHER MICRO RISK PROTECTION PRODUCTS

I. AGRICULTURE MICROINSURANCE REGULATORY FRAMEWORK



Figure 5: Logo of Micro Agri

The Agriculture Microinsurance Framework ("Micro Agri Framework") is envisioned to promote and encourage the provision of agriculture microinsurance products and services that are simple, affordable and accessible to the vast of the population dependent on agriculture. Its main objectives are:

- a) Provide clear-cut policy on MicroAgri to encourage the Government and private sector microinsurance providers to innovate and design products tailor-fitted to the needs of agricultural clients;
- b) Clarify and delineate the roles and functions of the Government and microinsurance providers, regular agents, general agents, brokers, and other stakeholders in the delivery of Micro Agri.

The term "agriculture" in the framework means¹⁹:

- Cultivating the soil, planting of basic and high value crops, raising of livestock and poultry, including the harvesting and marketing of such farm products, and other farm activities and practices;
- Catching, producing, growing, harvesting, processing, marketing, developing, conserving, and managing of all aquatic resources and fisheries areas;
- Establishing, managing, and harvesting of commercial trees such as teak, falcata, and rubber and their derivative products; and
- Processing, marketing and distributing raw, semi-processed or finished agricultural, fishery, and forestry products.

MicroAgri may be designed to protect against various perils that can affect different stages in the value chain, ranging from the pre-production to the final stages such as marketing of finished products.

The two types of Micro-Agri products allowed by IC regulations are:

- a) **Standard indemnity-based**
Covers all or a portion of actual covered losses incurred when one or more pre-defined events occur within the term specified in the policy contract.
- b) **Parametric-based or index-based**
Addresses when one or more pre-defined parameters/indices have been breached (triggers or thresholds) within the term specified in the policy

¹⁹ Circular Letter No. 2015-53 dated 15 October 2015, p. 3.

contracts. Instead of indemnification based on actual loss measurement, the benefit amounts are determined by one or parametric formulae or indices which yield proxy estimates that are correlated to the actual losses.

- The parameters/indices that may be used in constructing proxy loss formulae in parametric-based MicroAgri include:
 - a. Wind speed (kph),
 - b. Temperature (degrees Celcius),
 - c. Relative humidity (percentage),
 - d. Water levels, rainfall (amount of, in mm); and
 - e. Other similar indices that may be permitted by the IC.

Table 3: Summary of Provisions on Micro Agri

Common Provisions	Microinsurance Products
Maximum Premium	7.5% of the current daily minimum wage rate of non-agricultural worker in Metro Manila, computed on a daily basis
Maximum Benefits	1,000 times the daily minimum wage rate of a non-agricultural worker in Metro Manila
Policy Contract	Simple and easy to understand. May be printed in English or Filipino
Frequency of Premium Collection	Flexible, cash flow based premium payments (Daily, Weekly, Monthly, Quarterly, Semi-Annual, Annual)
Documentary requirements	Simple, easy to understand and minimal
Claims Settlement	Ten (10) days after submission of complete documents. 20 days, in cases of natural catastrophes and disasters, upon submission of complete documents.
Contestability Period	Maximum of one (1) year from date of issue or last reinstatement of the policy
Target Market	Low income and informal sector
Providers	Life Insurance Companies Non-life Insurance Companies Cooperative Insurance Societies Mutual Benefit Associations

II. HEALTH MICROINSURANCE REGULATORY FRAMEWORK



Figure 6: Logo of MicroHealth

The Framework for Health Microinsurance (or MicroHealth) aims to augment the Government's Universal Health Care program through a viable and sustainable private sector microinsurance industry to provide every Filipino with greater coverage and wider access to simple, affordable, appropriate and effective MicroHealth products and services²⁰ in order to address

the health needs of the general population, particularly the low-income and the informal sectors.

²⁰ Circular Letter No. 2016-22 dated 11 April 2016

The objectives of the framework are:

- a) Inclusive health insurance for the general population with particular focus on the low income and informal sectors;
- b) Proactive and increased private sector participation;
- c) Greater coverage and easier access to a wide range of innovative MicroHealth products and services responsive to the needs of clients; and
- d) Enhanced consumer value and client protection.

Since the issuance of Executive Order No. 192, s. 2015, the regulation and supervision of Health Maintenance Organizations (HMOs) was transferred from the Department of Health (DOH) to the Insurance Commission, this further strengthened the involvement of HMOs on the pursuance of inclusive health coverage.

Table 4: Summary of Provisions on Micro Health

Common Provisions	Microinsurance Products
Maximum Premium	7.5% of the current daily minimum wage rate of a non-agricultural worker in Metro Manila, computed on a daily basis
Maximum Benefits	1,000 times the daily minimum wage rate of a non-agricultural worker in Metro Manila
Policy Contract	Simple and easy to understand. May be printed in English or Filipino
Frequency of Premium Collection	Flexible, cash flow based premium payments (Daily, Weekly, Monthly, Quarterly, Semi-Annual, Annual)
Documentary requirements	Simple, easy to understand and minimal
Claims Settlement	Ten (10) days after submission of complete documents.
Contestability Period	Maximum of one (1) year from date of issue or last reinstatement of the policy
Target Market	Low income and informal sector
Providers	Life Insurance Companies Non-life Insurance Companies Cooperative Insurance Societies Mutual Benefit Associations Health Maintenance Organizations (HMOs)

Other Features of MicroHealth products and services:

- a) MicroHealth shall be in the form of guaranteed benefits given to clients upon the occurrence of contingent or unforeseen events consistent with the definition of insurance in the Insurance Code, as amended.
- b) MicroHealth shall principally cover fully or partially curative care benefits in in-patient and out-patient settings such as treatment of illnesses and injuries, pregnancy-related cases, and medical procedures for therapeutic and rehabilitation purposes.
- c) Health maintenance products that principally cover preventive health care and maintenance services such as regular executive check-ups, counselling, optical and dental services shall not fall under the definition of MicroHealth.
- d) MicroHealth providers may bundle their products and services with preventive health care benefits.

- e) Approved MicroHealth products by the Insurance Commission regulated entities shall bear the "MicroHealth Logo" and shall at all times in accordance with the rules and regulations of the Insurance Commission.

In April 2016, the Insurance Commission and the DOH signed a Memorandum of Understanding (MOU) to express their commitment to collaborate, coordinate, and cooperate to create a regulatory environment that enables Microhealth providers to offer complementary and supplementary products and services to the Filipino market.

III. MICRO PRE-NEED REGULATORY FRAMEWORK



Figure 7: Logo of Micro Pre-need

The Microinsurance Pre-need Regulatory Framework aims to provide affordable pre-need products for education, life or memorial services, and pension.

Pre-need plans are defined by the Pre Need Code as “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”.²¹

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

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

The Micro Pre-Need products' paramount considerations are:

- a) accessibility
- b) Affordability of contract price, and
- c) simplicity of contracts

The table shows the summary of provisions of Micro Pre-need products:

²¹ Sec. 4, par.(b), of R.A. No. 9829, Pre-Need Code of the Phils.

Table 5: Summary of Provisions on Micro Pre-need

<i>Common Provisions</i>	<i>Micro Pre-need Products</i>
Maximum Premium Gross Contract Price	7.5% of the current daily minimum wage rate for non-agricultural workers in Metro Manila, computed on a daily basis
Maximum Benefits	1,000 times the daily minimum wage rate for non-agricultural workers in Metro Manila
Policy Contract	Simple and easy to understand. May be printed in English or Filipino
Frequency of Premium Collection	Flexible, cash flow based premium payments (Weekly, Monthly, Quarterly, Semi-Annual, Annual)
Grace Period	75 calendar days from premium due date
Documentary requirements	Simple, easy to understand and minimal
Claims Settlement	Ten (10) days after submission of complete documents. Memorial Services - processed and provided within (24) hours from receipt notice of death.
Contestability Period	Maximum of one (1) year from date of issue or last reinstatement of the policy
Target Market	Low income and informal sector
Delivery Channels	Sold through pre-need companies providers, sales counselors, pre-need general agents and pre-need brokers licensed by the Insurance Commission

MICROINSURANCE PRODUCT BUNDLING

Bundling products is defined as an *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.*²².

IMC 1-2010 permits microinsurance product bundling 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.²³

The maximum amount of premium and guaranteed benefits as discussed in the previous topics of this handbook in case of a bundled product shall apply to each component of the bundled product.²⁴

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.²⁵

The other rules on microinsurance product bundling as prescribed by Circular Letter No. 2015-54 are:

- Comprised ***only*** of microinsurance products;
- Each of the components is underwritten separately;
- The contract specifies that the lead microinsurance provider will assume liability for the entire bundle;
- 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;
- 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.
- 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.

²² Circular Letter No. 2015-54 dated 16 October 2015, paragraph 42, a, p. 12.

²³ IMC No. 01-2010, dated 29 January 2010, paragraphs 4.1-4.3; as affirmed in Paragraph 41 of IC Circular Letter No. 2015-54, *supra*.

²⁴ IMC No. 01-2010, *supra*, paragraph 42, b.

²⁵ Circular Letter No. 2015-54, *supra*, paragraph 42

- 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.
- 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.
- 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

CONSUMER PROTECTION

One of the Insurance Commission's priorities is to ensure that the interest and welfare of the insuring public are protected. For microinsurance clients, the following mechanisms are in place:

I. POSTING OF THE BILL OF RIGHTS

The Bill of Rights is issued to promote the protection of the rights of policyholders as may be found in various insurance laws, rules and regulations. It also seeks to safeguard all other contractual rights which are provided for under the insurance policy²⁶.

II. FAST CLAIMS SETTLEMENT

All entities providing microinsurance products shall process and settle claims within ten (10) working days from receipt of complete required documents from a claimant.

For Memorial Services for Micro Pre-need Products, the services must be provided 24 hours from receipt of notice of death²⁷; while for Micro Agri products, in cases of catastrophic events, the claims will be payable 20 working days upon submission²⁸ of complete documents/requirements.

III. ALTERNATIVE DISPUTE RESOLUTION (ADR) MECHANISM

The Philippine micro risk protection industry comprises a various providers and delivery channels such as commercial insurance companies, cooperative insurance societies, mutual benefit associations, pre-need companies, health maintenance organizations, thrift, rural and cooperative banks, cooperatives and non-government organizations. In view of the uniqueness of each structure, an appropriate Alternative Dispute Resolution (ADR) mechanism are prescribed.

The process shall adopt the following ADR mechanisms:

(i) Mediation - a trained third party facilitates a negotiation for the purpose of reaching a voluntary agreement concluded by the parties themselves. The mediator refrains from dispensing advice or suggestions, and aims to guide the discussion towards resolution by safeguarding the structure of the process and observance of the ground rules agreed upon.

(ii) Conciliation - While conciliation is similar to mediation, it is distinguished by the fact that a conciliator actively offers opinions and suggestions.

²⁶ IC Circular Letter No. 2016-30 dated 26 May 2016

²⁷ IC Circular Letter No. 2015-51 dated 9 October 2015, p. 6.

²⁸ IC Circular Letter No. 2015-53 dated 15 October 2015, p. 6.

Below is a summary of the key features of the mediation and conciliation processes:

Table 5: Features of Mediation and Conciliation

FEATURES	MEDIATION	CONCILIATION
Process	Structured, with specific stages	Less structured, following the course of the particular negotiation
Decision maker	The parties/disputants themselves	The parties/disputants themselves
Basis of decision	Needs and interests of all parties, rather than demands or positions	Most favorable reconciliation of positions
Involvement of the parties	Direct and full participation in representing their respective interests; deciding on issues; and creating, evaluating and agreeing on options and solutions	With the guidance and suggestions of the conciliator, direct and full participation in agreeing on options and solutions
Role of third party facilitator	Independent and impartial process facilitator who does not give opinions, suggestions nor judgments on disputes	Usually an authority figure responsible for seeking a solution to the dispute, who may give opinions and advice, but not impose a judgment
Types of possible outcomes	“Win-win” situation; mutual acceptance	Best compromise solution acceptable to the parties

ADR Processes for the Microinsurance Sector

The ADR framework for the microinsurance sector was designed to protect both consumers and providers by providing them with venues to resolve disputes in a convenient and expeditious non-adversarial manner. The process to be offered shall be mediation and/or conciliation that promote empowerment of the disputing parties.

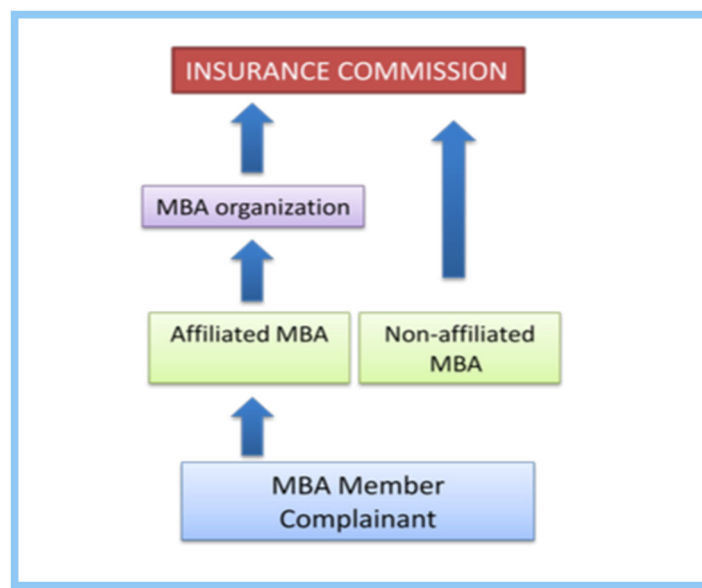
It must be noted that cooperatives have existing Mediation-Conciliation Committees that can cater to disputes affecting their members. Therefore, microinsurance disputes involving cooperatives will be referred to the existing primary and secondary level mechanism. Other sectors/groups that do not have a formal Mediation-Conciliation mechanism may adopt their own guided by the following:

a) Mutual Benefit Associations (MBA):

Filing a case	All members of an MBA may file a complaint with their respective MBA where a roster of Insurance Commission accredited facilitators shall be provided.
Third Party Facilitator	Only Insurance Commission Accredited facilitators may handle Mediation – Conciliation cases
Venue for ADR	Mediation – Conciliation proceedings shall be held within the respective MBA.

<p>Parties to a case</p>	<p>Only complainants and respondents directly involved in the case must be present during the course of the proceedings. Authorized representatives shall present a Special Power of Attorney prior to signing any agreement. Should parties wish to bring legal counsel, the legal counsel shall not actively participate in the proceedings and only act as an observer.</p>
<p>Appeals mechanism in unresolved cases or where parties decline ADR</p>	<p>Each level of the appeals mechanism may apply only upon presentation of the Certificate of Non-Resolution. MBAs are further categorized into “affiliated” and “non-affiliated”:</p> <p>a. For MBAs affiliated with an MBA organization, parties may submit the case to their respective organization. Should cases remain unresolved at this level, a third stage is available at the IC where the rules of the regulatory body will apply.</p> <p>b. For MBAs not affiliated with any MBA organization, parties may submit the case to the IC.</p>

Figure 8: Proposed ADR Process for Mutual Benefit Associations (MBA)



b) Cooperatives:

Complainants in the cooperative sector are categorized into three types with each having its own process of resolution:

a. Members of Primary Cooperatives

<p>Filing a case</p>	<p>A member may file a complaint with his respective cooperative, where a roster of accredited facilitators shall be provided.</p>
<p>Third Party Facilitator</p>	<p>Conciliation-Mediation Committee of the cooperative.</p>
<p>Venue for ADR</p>	<p>Proceedings shall be held within the respective cooperative.</p>

Parties to a case	Only complainants and respondents directly involved in the case must be present during the course of the proceedings. Authorized representatives shall present a Special Power of Attorney prior to signing any agreement. Should parties wish to bring legal counsel, the legal counsel shall not actively participate in the proceedings and only act as an observer.
Appeals mechanism in unresolved cases or where parties decline ADR	Upon presentation of the Certificate of Non-Resolution, parties may file to a second level process with the cooperative insurance society they are affiliated with. Should cases remain unresolved, a third level is available with the IC-upon presentation of the Certificate of Non-Resolution.

b. Primary Cooperatives with group policies

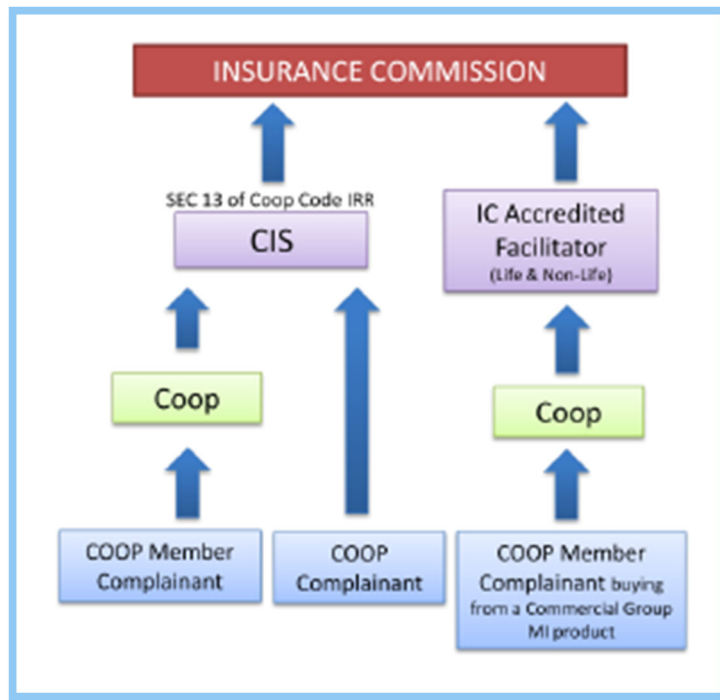
Filing a case	All primary cooperatives may file a complaint with the cooperative insurance society they are affiliated with.
Third Party Facilitator	Conciliation-Mediation Committee
Venue for ADR	Proceedings shall be held within the respective cooperative insurance society
Parties to a case	Only complainants and respondents directly involved in the case must be present in all sessions. Authorized representatives shall present a Special Power of Attorney prior to signing any agreement. Should parties wish to bring legal counsel, the legal counsel shall not actively participate in the proceedings and only act as an observer.
Appeals mechanism in unresolved cases or where parties decline ADR	Upon presentation of the Certificate of Non-Resolution, parties may elevate the dispute to a second level process with the IC.

c) Cooperative members who purchase a commercial group microinsurance product of the primary cooperative:

Filing a case	All members may file a complaint with their respective cooperatives.
Third Party Facilitator	Conciliation-Mediation Committee
Venue for ADR	Proceedings shall be held at the office of the cooperative.
Parties to a case	Only complainants and respondents directly involved in the case must be present in all sessions. Authorized representatives shall present a Special Power of Attorney prior to signing any agreement. Should parties wish to bring legal counsel, the legal counsel shall not actively participate in the proceedings and only act as an observer.

<p>Appeals mechanism in unresolved cases or where parties decline ADR</p>	<p>Appeal mechanism in unresolved cases or where parties decline ADR</p> <p>Upon presentation of the Certificate of Non-Resolution, parties may submit the dispute to the ADR unit of the insurance provider where an IC Accredited Facilitator shall handle this second level process.</p> <p>Should cases remain unresolved, a third level is available with the IC upon presentation of a Certificate of Non-Resolution.</p>
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Figure 9: Proposed ADR process for Cooperatives:



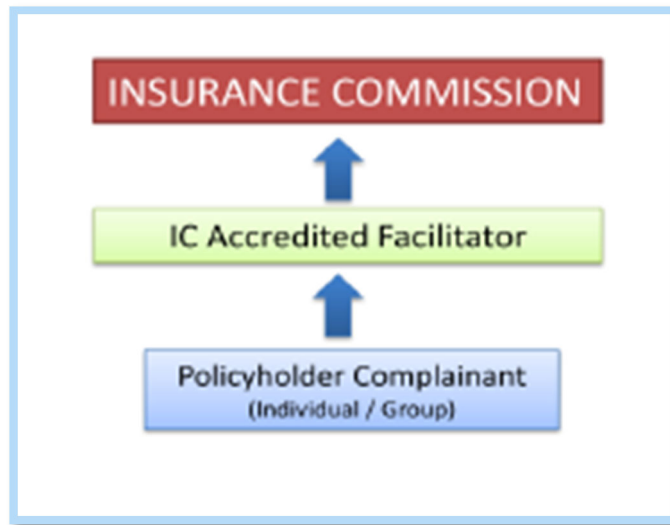
d) Life and Non-Life Commercial Insurance Providers:

Policyholders of life & non-life products purchased from agents or brokers of insurance providers may follow this ADR model:

<p>Filing a case</p>	<p>Policyholders may file their complaints with the Mediation-Conciliation unit of their respective insurance provider.</p>
<p>Third Party Facilitator</p>	<p>IC Accredited Facilitator</p>
<p>Venue for ADR</p>	<p>Proceedings shall be held at the office of the third party facilitator located within the municipality or city of residence stated in the policy contract. Should a third party facilitator not be available or if parties do not prefer to use the available facilitator/s, parties may choose from the roster of facilitators in neighboring cities or municipalities. The proceedings may be held in a public office or space, provided it is agreed upon by all parties.</p> <p>In case the party changes residence, a Barangay Certification shall be submitted to update the venue of Mediation-Conciliation.</p>

<p>Parties to a case</p>	<p>Only complainants and respondents directly involved in a case must be present in all sessions. Authorized representatives shall present a Special Power of Attorney prior to signing any agreement. Should parties wish to bring legal counsel, the legal counsel shall not actively participate in the proceedings and only act as an observer.</p>
<p>Appeals mechanism in unresolved cases or where parties decline ADR</p>	<p>Upon presentation of the Certificate of Non-Resolution, parties may elevate the case to a second level process with the IC.</p>

Figure 10: Proposed ADR Process for Life and Non-Life Commercial Insurance Providers



CHAPTER 7

REINSURANCE

A contract of reinsurance is one by which an insurer procures a third person to insure him against loss or liability by reason of such original insurance²⁹.

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 to duly licensed entities by the IC to do business in the Philippines³⁰.

Life microinsurance risk may only be ceded to a life insurance company, or to a reinsurance company while 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. However, Non-life insurance company is not permitted to accept risk of microinsurance products with duration greater than three (3) years.

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

Table 6: Microinsurance Risks for Reinsurance

Type of microinsurance risk	<i>Life insurance company</i>	<i>Non-life insurance company</i>	<i>Reinsurance company</i>	<i>Mutual Benefit Association</i>
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

Microinsurance risk may be ceded to a foreign licensed insurance risk-bearing entity provided that³¹:

- 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;

²⁹ Section 95 of the Amended Insurance Code R.A. 10607

³⁰ Circular Letter No. 2015-54 dated 15 October 2015, p. 10.

³¹ *Ibid.*

- 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 the Insurance Commission's Circular Letter 2014-42, prior approval of the treaty or agreement by the Insurance Commission 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.

CHAPTER 8

PERFORMANCE STANDARDS

A set of performance standards was 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. The indicators are divided into the following categories: Solvency and Stability; Efficiency; Governance; Understanding of the product by the insured; Rate of Growth; and Outreach (SEGURO).

Indicators under Solvency and Stability apply to a microinsurance risk carrier's (insurer, MBA, or other) entire operations while the scope of the remaining categories is limited to the provider's microinsurance operations³².

Under Circular Letter No. 2016-63, the standards and scores were derived by analyzing industry data and incorporating feedback of stakeholders. Listed below are the Enhanced Performance Indicators and Standards to serve as tools to indicate performance:

Table 7: SEGURO Performance Indicators and Formulas

Indicator	Formula
1.1 SOLVENCY & STABILITY Indicators under this category measure the degree of safety, soundness, stability, and financial strength of the microinsurance provider.	
1.1.1 Capital Adequacy Ratio (CAR) or RBC Ratio (depends on what is being used)	<u>Life and Non-Life only:</u> Total Available Capital / RBC Capital Requirement <u>The original formula:</u> Networth / RBC Capital Requirement
1.1.2 Solvency Ratio (SR) - measures the provider's financial strength	<u>MBAs only:</u> (Admitted Assests - Required Guarantee Fund) / Total Liabilities
1.1.3 Liquidity Ratio (LiqR) - determines the capacity of the provider to pay claims quickly and meet current obligations	<u>Life and Non-Life only:</u> Current Assets / Current Liabilities <u>MBAs only:</u> Current assets / (Factor * Individual Equity Value + other current liabilities)
1.1.4 Leverage Ratio (LevR) - measures the extent to which an MBA's Fund Balance or an insurer's Networth are able to finance their Total Liabilities should any untoward event occur.	<u>Life and Non-Life:</u> Total Liabilities / Networth <u>MBAs:</u> Total Liabilities / Fund Balance
1.2 EFFICIENCY Indicators in this category measure show how efficiently microinsurance is delivered to the customer, thus comparing the cost versus the earning	

³² Circular Letter No. 2016-63 dated 16 December 2016, pp. 1-20

<p>1.2.1 Underwriting Costs Ratio (UWCR)</p>	<p><u>Life and Non-Life:</u> Underwriting Costs / Earned Premium</p> <p><i>Note: The underwriting cost for MBAs, if any, is included in their Operating Expense Ratio</i></p>
<p>1.2.2 Operating Expense Ratio (OPER)</p>	<p><u>Life and Non-Life:</u> Operating Expenses / Earned premium</p> <p><u>MBA Basic:</u> Operating Expenses / Earned Contributions</p> <p><u>MBA Optional:</u> Operating Expenses / Earned Premium</p>
<p>1.2.3 Incurred Claims Ratio (ICR) - shows the proportion of microinsurance premiums or contributions that are paid out in the form of benefits and services within a particular period such as a calendar year</p>	<p><u>Life and Non-Life:</u> Incurred claims / Earned premium</p> <p><u>MBAs:</u> Incurred claims / (Earned Contributions + Earned Premium)</p>
<p>1.2.4 On-time Claims Settlement Ratio (CSR) - shows the proportion of claims that were settled within the standard claims settlement time for microinsurance which is currently set at ten (10) working days after a claim is filed with complete documents</p>	<p>Number of claims filed in the period and settled within 10 days / Number of claims filed in the period</p>
<p>1.3 GOVERNANCE Determines if the conduct of the microinsurance business complies with the principles of good governance</p>	
<p>1.3.1 ASEAN Corporate Government Scorecard (ACGS)</p>	<p>ACGS standard (use latest available) <i>Note: see table 5 for the SEGURO Governance Questionnaire</i></p>
<p>1.3.2 Additional Governance Questions In addition to the ACGS, the Microinsurance providers should answer the questions on the SEGURO Governance Questionnaire (table 5)</p> <p><u>For Life and Non-Life:</u> Governance questions in #1, #3, #4, #5 in section 1.3</p> <p><u>For MBAs and Coops:</u> All governance questions in section 1.3</p>	<p><u>Life and Non-Life:</u> YES to #1, #3, #4 YES or N/A to #5</p> <p><u>MBAs, Coops:</u> YES to #1, #3, #4, #6, #7, #8 YES or N/A to #2, #5</p>
<p>1.4 UNDERSTANDING OF THE PRODUCT BY THE INSURED Indicators in this category provide information on the degree of product understanding by the insured. If a product is well understood, and that claims are settled well, the insured is more likely to stay loyal to the product</p>	
<p>1.4.1 Renewal Ratio (RR)</p>	<p><u>Life, non-life:</u> <u>Optional/voluntary products only</u> Number of renewals for voluntary MI products in the period / Number of potential renewals for voluntary MI products in the period</p>

1.4.2 Member Retention Ratio (RR)	<u>For MBAs memberships:</u> Number of member retentions for the basic life product in the period / Number of potential member retentions for the basic life product in the period
1.4.3 Claims Rejection Ratio (CRR) - measures the proportion of claims that were filed but were not settled with benefit payment. This is one important indicator of the claimant's level of understanding of the product	Number of claims rejected in the period / total number of claims settled in the period
1.5 RATE OF GROWTH This indicator shows if the premium has grown compared to the previous year	
1.5.1 Rate of Growth of the MI Business (RG)	<u>Entities other than MBAs:</u> (Amount of MI premiums received, current year / Amount of MI premiums, previous year) - 1 MBAs: (Aggregate MI contributions and premiums, current year / Aggregate MI contributions and premiums, previous year) - 1
1.6 OUTREACH This indicator shows if the membership has grown compared to the previous year	
1.6.1 Growth in Outreach (GO)	(Number of insureds current year / Number of insureds previous year) - 1

As for the aforementioned requirement for the Governance section on the ASEAN Corporate Government Scorecard (ACGS) and its Additional Governance Questions, the table below specifies the questions to be answered in this portion of the SEGURO template.

Table 8: SEGURO Governance Questionnaire

I. ASEAN Corporate Governance Scorecard	
1	Have you accomplished all the evaluation requirements concerning the ASEAN Corporate Governance Scorecard within the prescribed time? (YES, NO)
II. Fair and equitable treatment of members/policy holders	
2	Have all funds collected from past informal insurance activities or unregistered products been transferred to a formalized entity or to a formalized product fund? (YES, NO) (N/A if not MBA or CIS)
III. The role of stakeholders	
3	Does the microinsurance entity provide information and education program for its MI clients highlighting the roles and responsibilities of both provider and clients? (YES, NO)
IV. Disclosure & transparency	
4	Does the microinsurance entity provide appropriate disclosure and transparent information on its obligations to MI clients/members? (YES, NO)
5	In case of bundled products, does the microinsurance entity require its partner MI agents (MFIs) to disclose to its clients/members the issuing microinsurance provider that is principally accountable to them? (YES, NO, N/A if no bundled products)
6	Is there appropriate disclosure on the salaries and remuneration of the board and the management to the stakeholders? (YES, NO) (N/A if not MBA or CIS)

7	Is there a disclosure to the members and IC of the pre-operating expenses that have been approved by the Board? (YES, NO) (N/A if not MBA or CIS or established more than one year)
8	Have the majority of the board attended at least 16 hours of relevant training on insurance operations and financial management? (YES, NO) (N/A if not MBA or CIS)

The Microinsurance providers are expected to submit the SEGURO to the Insurance Commission annually. This also serves as a management tool to monitor their comparative performances over the years. More comprehensive guide on these calculations can be found on Circular Letter 2016-63 Enhanced Performance Indicators and Standards for Microinsurance 2016.