

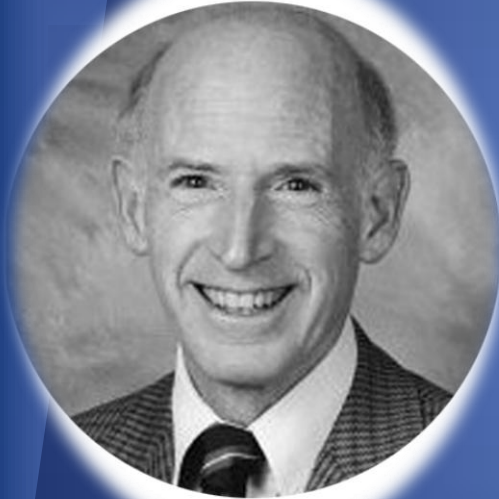


# THE PRESENT AND THE FUTURE OF THE PHILIPPINE INSURANCE REGULATION

A Presentation for the 14<sup>th</sup> General Insurance Summit  
26 April 2017



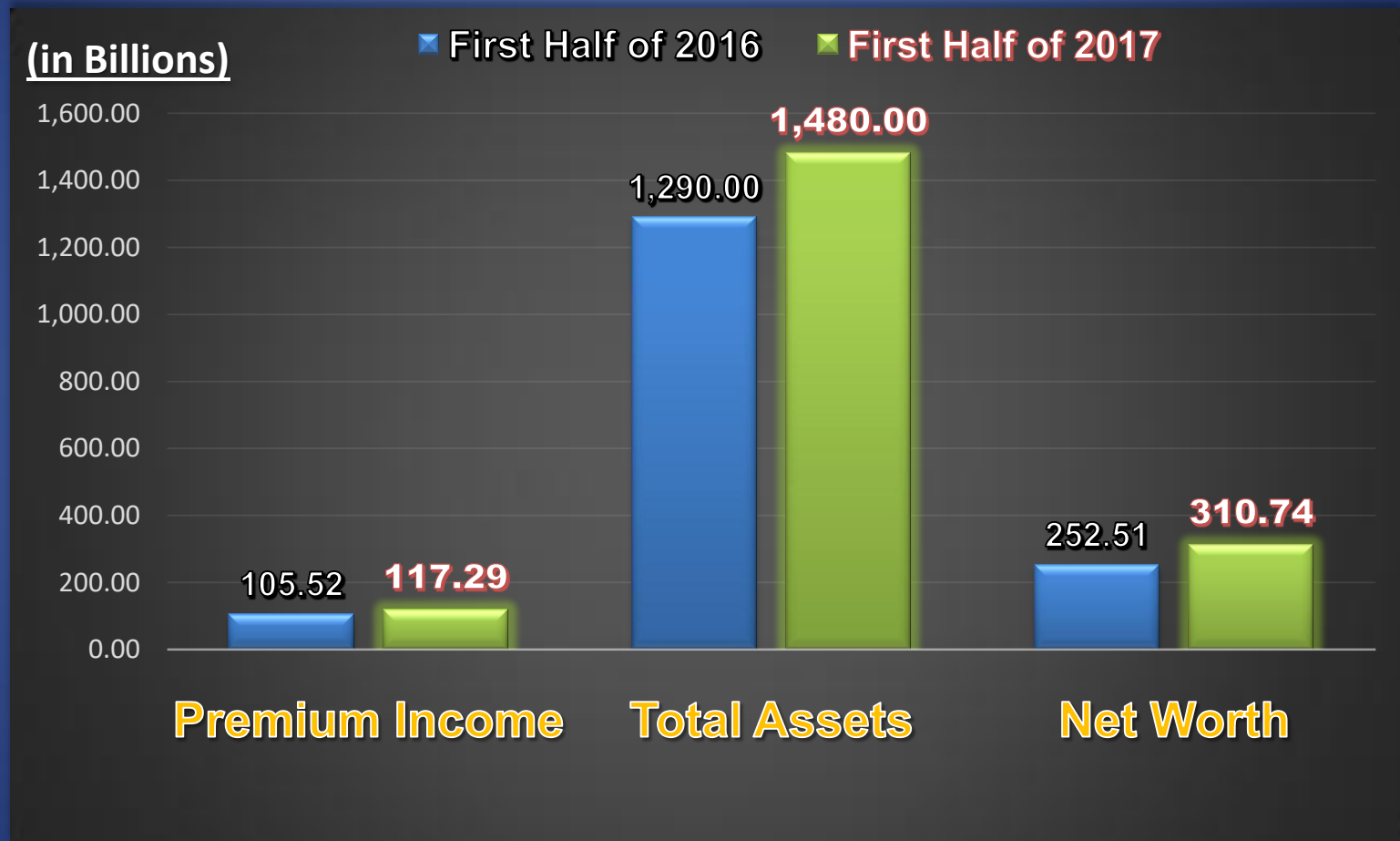
**“Planning is bringing the future into the present so that you can do something about it now”**



**Alan Lakein**, Author of “How to Get Control of Your Time and Your Life”



# INSURANCE INDUSTRY PERFORMANCE



# NOTABLE ACCOMPLISHMENTS





# AMENDMENT OF THE RISK-BASED SUPERVISION FRAMEWORK

Through **Insurance Commission Circular Letter (IC CL) No. 2016-68** the Philippine RBC framework was amended and called **“RBC2”**.

Circular Letter (CL) No.:	2016-68
Date:	28 December 2016
Supersedes:	CL No. 2015-30

## CIRCULAR LETTER

**TO :** ALL LIFE AND NON-LIFE INSURANCE COMPANIES OPERATING IN THE PHILIPPINES

**SUBJECT :** AMENDED RISK-BASED CAPITAL (RBC2) FRAMEWORK

**WHEREAS**, the Amended Insurance Code was passed into law on 15 August 2013 and took effect on 20 September 2013;

**WHEREAS**, the Insurance Commissioner under Section 437 of the Amended Insurance Code may issue such rulings, instructions, circulars, orders and decisions as may be deemed necessary to secure enforcement of the Amended Insurance Code, to ensure the efficient regulation of the insurance industry in accordance with global best practices and to protect the insuring public;

**WHEREAS**, Section 200 of the Amended Insurance Code provides that an insurance company doing business in the Philippines shall at all times maintain the minimum-paid up capital, and the net worth requirements as prescribed by the Commissioner;

**WHEREAS**, Section 200 requires that such solvency requirements shall be based on internationally accepted solvency frameworks and adopted only after due consultation with the insurance industry associations;

**WHEREAS**, due consultations through series of parallel runs and dialogues have been conducted to assess the soundness and reasonableness of the proposed amendments to the Risk-Based Capital (RBC) Framework;

**NOW, THEREFORE**, pursuant to the authority vested in me under Section 437 of the Amended Insurance Code, and after a series of consultations, dialogues, and discussions conducted and held with the insurance industry and other stakeholders, the following rules and regulations of the Amended RBC Framework to be known

[www.insurance.gov.ph](http://www.insurance.gov.ph)



# KEY FEATURES OF THE MODIFIED RBC2 FRAMEWORK:

- **Margin for Adverse Deviation (MfAD)**: set to have a sufficient level of reserve to pay for liabilities in the future arising from insurance policies. **For 2017**, reserves are valued **without additional MfAD** in order to allow insurance companies to adjust while properly informing them of the RBC supervisory framework.



# KEY FEATURES OF THE MODIFIED RBC2 FRAMEWORK:

- Staggered transition to the internationally accepted standard for solvency frameworks:

95.5<sup>th</sup> per centile in 2017

97.5<sup>th</sup> per centile in 2018

99.5<sup>th</sup> per centile in 2019



# REVISED GUIDELINES ON VULs

Section 2. Qualifications of Insurer to Issue Variable Life Insurance Contracts .....

Section 4. Insurance Policy Requirements.....

Section 5. Reserve Liabilities for Variable Life Insurance Contracts.....



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

## Circular Letter No. 2017-34

Date	15 June 2017
Supersedes	2002 Guidelines on variable life contracts
Amends	Circular letter No. 23-2005; 16-2006; 2015- 20

### CIRCULAR LETTER

**TO** : All Life Insurance Companies

**SUBJECT** : Revised Guidelines on Variable Life Insurance Contracts

**WHEREAS**, Section 238 of The Insurance Code, as amended by R.A. No. 10607, provides that no insurance company authorized to transact business in the Philippines shall issue, deliver, sell or use any variable contract in the Philippines, unless and until such company shall have satisfied the Commissioner that its financial and general condition and its methods of operations, including the issue and sale of variable contracts, are not and will not be hazardous to the public or to its policy and contract owners;

**WHEREAS**, Section 437 of the Insurance Code also provides that the Insurance Commissioner shall have the duty to see that all laws relating to insurance, insurance companies and shall, notwithstanding any existing laws to the contrary, have sole and exclusive authority to regulate the issuance and sale of variable contracts and to provide for the licensing of persons selling such contracts, and to

# ANTI-RED TAPE ACT (ARTA) INITIATIVES

- For the issuance or renewal of an adjuster's license, **NBI and Barangay clearances are no longer required;**
- Number of **copies of Annual Reports** to be submitted, **reduced to one (1);**
- Submission of Annual reports designated to **one central division;**
- Issuance of a circular letter that presents a list with a **reduced number of documentary requirements.**





# RULES ON ELECTRONIC COMMERCE

CIRCULAR LETTER NO.	2014-47
DATE	21 November 2014
SUPERSEDES	None

## CIRCULAR LETTER

**SUBJECT : Guidelines on Electronic Commerce of Insurance Products**

7.2 Prior to the conclusion of transactions, insurance providers shall ensure that all terms and conditions related to the transactions are available to consumers. Such information shall include:

- (a) A description of the insurance product or services;
- (b) The full price to consumers, including:
  - 1) The applicable currency;
  - 2) Any delivery charges, taxes, and specific reference to any other charges that the insurance provider is responsible for collecting;
  - 3) When the insurance provider cannot reasonably ascertain the amount of potentially applicable charges, the fact that such charges may apply; and
  - 4) When the full premium cannot be determined in advance, the method the insurance provider will use to calculate it, including any recurrent costs and the method used to calculate them;
- (c) Payment terms, including the methods of payment available to consumers and any associated surcharges or discounts;
- (d) Cancellation policies on the transaction or application, including any associated charges, when such application was not accepted or a contract is not yet executed;
- (e) Method of contacting the consumer in the future (e.g. by e-mail, telephone, facsimile, letter),

Circular Letter (CL) No.	2016 - 60
Date:	15 November 2016
Amends:	Section 7.10 of IC Circular Letter 2014-47

## CIRCULAR LETTER

**SUBJECT : AMENDMENTS TO GUIDELINES ON ELECTRONIC COMMERCE OF INSURANCE PRODUCTS**

**"7.10 Considering that consumers themselves complete the insurance application form on the internet, the process may be subject to error. To prevent the consequences of such errors, the information from the application form shall be recapitulated in a summary and presented to consumers before the contract is concluded, giving them the opportunity to validate their answers once more. In lieu of an actual specimen signature from the consumer to validate the information indicated in the on-line application form, the consumer may signify his consent by clicking the confirmation button to finalize the processing of the application. The use of the confirmation button does not prevent the insurance provider from using other modes of capturing consent (i.e. digital electronic signature pads, software application)."**



# CORPORATE GOVERNANCE

Circular Letter (CL) No.:	2015-23
Date:	8 May 2015
Supersedes:	

## CIRCULAR LETTER

**TO : ALL INSURANCE COMPANIES AND MUTUAL BENEFIT ASSOCIATIONS AUTHORIZED TO TRANSACT BUSINESS IN THE PHILIPPINES**

**SUBJECT : ASEAN CORPORATE GOVERNANCE SCORECARD**

In connection with our Advisory of May 3, 2013 and Circular Letter No. 14- 2013 prescribing the adoption of ASEAN Corporate Governance Scorecard (ACGS) for covered companies, we are issuing the Guidelines on Compliance with ACGS attached as Annex A for your proper guidance.

Moreover, in accordance with Section 4.4.2 of the said Guidelines, covered companies are enjoined to upload in their respective websites by June 15, 2015 the duly accomplished ACGS Response Forms based on their 2014 operation including a copy of the documents supporting their responses to the ACGS questions/items. Covered companies must also provide in their ACGS the corresponding links to the copy of the documents supporting their answers. Subsequent uploading of the completed ACGS Response Forms shall be on June 15 following the year being evaluated.

Likewise attached as Annexes B and C are the ACGS template and lists of "default" and "not applicable" items based on the nature of the corporate structure of the covered companies, respectively.

## The ACGS as a Tool to Improve Corporate Governance Practices<sup>4</sup>

3.1 The ACGS is composed of two levels:

### 3.1.1 Level 1

In general, there are five major sections that correspond to the OECD Corporate Governance Principles with their corresponding weight, as follows:

A.	Rights of Shareholders	10%
B.	Equitable Treatment of Shareholders	15%
C.	Role of Stakeholders	10%
D.	Disclosure and Transparency	25%
E.	Responsibilities of the Board	40%

Total Weight of all Sections in Level 1 100%

**Level 1** comprises descriptors/items that are in essence indicative of the following:

- (i) Laws, rules, regulations and requirements of each ASEAN member country, and
- (ii) Basic expectations of the OECD Principles.

### 3.1.2 Level 2

Two additional Sections include Bonus & Penalty

Bonus items for companies with practices that go beyond minimum standards ( 9 items)

Penalty items for companies with poor practices (21 Items)

Total Bonus and Penalty Items (30 Items)

The purpose of the bonus items (from +1 to +2) is to recognize companies that go beyond the items in Level 1 by adopting other emerging good practices.



# HIV AND MEDICAL INFORMATION DATABASE

CIRCULAR LETTER (CL) NO. :	2017-11
DATE :	14 February 2017

**Grant of Insurance Coverage.** The insurer may provide insurance coverage to a person with HIV or an individual diagnosed to be infected with HIV, if (a) the person is undergoing proper medical treatment, (b) the person has a favorable risk profile and (c) the results examinations required by the insurer are within normal requirements may include the following:

- 4.1. Routine requirements based on the age and risk;
- 4.2. HIV Medical Questionnaire filled out by physician;
- 4.3. Three (3) consecutive tests for CD4 cell count 6 months (submission of copies of results is required);
- 4.4. Current Viral Load count (Plasma HIV-1 RNA) 6 months (submission of copy of result is required);
- 4.5. Treatment or therapy course, must be undergoing Viral Treatment (ART);
- 4.6. Hepatitis B profile;
- 4.7. Hepatitis C profile;
- 4.8. Regular blood chemistry profile including liver function tests;

**Report to the Medical Information Database.** The insurer shall report to the Medical Information Database (MID) any HIV test with a positive result provided the information was voluntarily submitted by the applicant/proposed insured and subject to compliance by the provisions of R.A. No. 10173 or the *Data Privacy Act of 2012*. provided further, that the report to the MID is done with the consent of the applicant/proposed insured.

Circular Letter No.	2017-38
Date	14 July 2017
Supplements	Circular Letter No. 2016-54 dated 9 September 2016

## CIRCULAR LETTER

TO : ALL LIFE INSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES

SUBJECT : APPROVAL OF MEDICAL INFORMATION DATABASE ("MID") USER GUIDEBOOK

**WHEREAS**, pursuant to IC Circular Letter ("CL") No. 2016-54 dated 9 September 2016, a Medical Information Database ("MID") was created and institutionalized in order to detect and deter fraud that may occur in the course of obtaining life, health, disability income, critical illness, and long-term care insurance;

**WHEREAS**, the MID provides a cost-effective way for insurance companies to determine if medical statements on applications are accurate and complete, which ultimately redounds to the benefit of the insuring public;

**WHEREAS**, Section 7 of CL No. 2016-54 provides that:

"7. **PLIA as Administrator.** – The Philippine Life Insurance Association, Inc. ("PLIA") shall serve as Administrator of the MID, and shall issue guidelines within thirty (30) days from the date of the effectivity of this Circular to ensure the MID's compliance with the Data Privacy Act of 2012. The PLIA shall likewise ensure that appropriate information security and data privacy standards are put in place in the use of the MID to guarantee the protection of the 'sensitive personal information' and/or privileged information of the applicants and/or policyholders. The guidelines shall be subject to approval by the Insurance Commissioner."



# LEGAL OPINIONS

Circular Letter (CL) No.:	2017-13
Date:	07 March 2017
Supplements:	CL No. 2014-1

Circular Letter No.:	2017-35
Date:	07 July 2017
Supplements:	CL Nos. 2017-13 and 2014-15

## CIRCULAR LETTER

**TO :** IC-SUPERVISED ENTITIES AND THE GENERAL PUBLIC

**SUBJECT :** GUIDELINES IN THE PROCESSING OF REQUESTS FOR LEGAL OPINION

Pursuant to the powers vested in the Insurance Commissioner by Section 43 (d), to provide guidance and ensure compliance with the Insurance Commission's rules, regulation and orders, the following **Guidelines in the Processing of Requests for Legal Opinion** are hereby adopted:

**Section 1.** The request for legal opinion must pertain or relate to the interpretation and application of laws, rules and regulations being enforced and implemented by the Commission.

**Section 2.** All requests for legal opinion shall be filed before the Insurance Commission's head office.

The request for legal opinion shall be in writing and addressed to the Insurance Commissioner, stating therein the complete factual circumstances from which

## CIRCULAR LETTER

**SUBJECT : EXEMPTION FROM PAYMENT OF DOCKET FEES IN REQUESTS FOR LEGAL OPINION**

1. The National Government, its agencies and instrumentalities and local government units, or any of its employees or officers in the discharge of their official powers, functions and responsibilities;
2. Indigent persons who have no visible means of income, or whose income is insufficient for the subsistence of their families;

To ensure that only those qualified shall be exempted under this Circular, an applicant must submit a formal written request for exemption with the Insurance Commissioner stating therein a reasonable justification for the operation of the exemption. Moreover, said formal written request must be accompanied by a Certificate of Indigency from the Barangay Chairman having jurisdiction over the residence of the applicant;

3. Persons raising plain and simple questions which do not involve thorough examination of relevant documents, extensive legal research and/or significant use of this Commission's resources; and
4. Such other persons which the Commissioner finds, in the exercise of his discretion, should be exempt taking into consideration the public interest and the exigencies of public service.

**AJ**  
REGISTERED  
CERTIFIED  
ISO 9001

Circular Letter (CL) No.	: 2017-40
Date	: 11 August 2017
Amends/Supersedes	: None

## Guidelines in Completing the Private Insurance and Pre-need Companies' Structured Reporting Forms

The attached structured forms, which consist of the balance sheet and income statement, will be used for the quarterly compilation of the Other Financial Corporations Survey (OFCS) and other insurance-related statistics. The OFCS is an analytical survey that provides a comprehensive measure of the claims (or assets) and liabilities of the other financial corporations (OFCs) in the Philippines.

The attached reporting templates are actually simplified yet comprehensive version of the annual statements (AS) that are currently submitted to the Insurance Commission (IC). These AS (together with the schedules) are presented and transformed in a uniform, structured format for analytical purposes.

## Confidentiality

The completed report forms remains strictly confidential. Data derived from the structured templates will be used only for the compilation of OFCS and will be published in a consolidated, aggregated format to secure the companies' individual information sheet or data.

### Guidelines for completing the template

Please fill up ALL the items  
entity or institution; other  
of the  
succeeding instructions.

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figures in the yellow-col  
sub

## Terms and Definitions

**Institutional Units and S**  
incurring liabilities, and

antities. These are the

**WHEREAS**, the International Monetary Fund (IMF) established the Special Data Dissemination Standard Plus in 2012 which is the third (3<sup>rd</sup>) tier of IMF's data standards;

**WHEREAS**, the IMF provided technical assistance to the Bangko Sentral Pilipinas (BSP) to expand its financial sector database by including generation and reporting of Other Financial Corporations Survey (OFCS) non-bank financial institutions or the other financial corporations (OFCs) sector;

**WHEREAS**, this additional reporting requirement must be fully observed for the Philippines to remain in the IMF's list of countries that meet the tests of good **constitutional Units and S** statistical citizenship; **incurring liabilities, and**

**WHEREAS**, OFCS is an analytical survey that provides a comprehensive measure of the claims (assets) and funding sources (liabilities) of OFCs;

**WHEREAS**, life insurance, non-life insurance and pre-need companies were classified as OFCs:

The OFCS is an analytical survey that provides a comprehensive measure of the claims (or assets) and liabilities of the other financial corporations (OFCs) in the Philippines.

# CHALLENGES AND OPPORTUNITIES



# Admissibility of Assets and Risk Charging

The implementation of RBC2 and FRF raises the following issues

Assumption that the insurance industry is subjected to **two** regulatory frameworks

Possibility of a company being **deficient in both frameworks' capital requirement**

**Risk Charging**





# IMPLEMENTATION OF IFRS 17



## Operating Model

### How will IFRS 17 impact the insurers?

IFRS 17 will have a pervasive impact on the operating model of the insurers. Six groups of stakeholders will be affected and insurers need to manage these relationships effectively to ensure the overall market impact is beneficial.

**The Commission has been requested by the PIC to head its evaluation.** We are currently working in coordination with the other members of the PIC, both from the public and private sectors, to ensure that we are **prepared for its implementation in January 2021.**



## Material financial impacts

IFRS 17 will have a material impact on the financially reported results of insurance companies.

Area	Impact
Profit	• There is no consistency in "point of sale" profit reporting under current IFRS practices and certain companies report profit at initial recognition and this will be no longer possible.
	• Equally, companies which report day one losses because of policies based on solvency considerations would have a very different (better) profit profile in terms of new business profitability.
	• In addition the timing of profitability in subsequent periods could be significantly different.
	• Deloitte work to date suggests that IFRS 17 tends to give a stable profit signature in many cases.

# Servicing Companies

The Commission is evaluating the idea of a framework creating a  
“Servicing Company Phase”

## The Offer

A company **can slowly move out** from the insurance industry and **still finish its business operations** when it comes to claims, **without actually diminishing its value** for potential acquisition by other investors.



# Collective Investments Schemes (CIS) Bill



The investment component of a VUL product is **not a separate product**, is actually taken into consideration in product development.

# Regulation of Brokers

- There are only 5 circulars relative to regulation of Brokers
- Initiative to finalize the Standard Brokers' Agreement

## The Standard Brokers' Agreement...

- ✓ Provides **basic provisions** for every brokers' agreement
- ✓ Follows the **26 Insurance Core Principles**
- ✓ Reminds brokers of **other laws and regulations** that must be complied with





# Appointed Actuaries

## “Actuary”

- **Appointed** by the Board of Directors/ Executive Officer
- Issues a **Reserve Opinion** at year-end to the company he was appointed to serve
- Vows to the regulator that the company he/she **represents is holding adequate reserves**

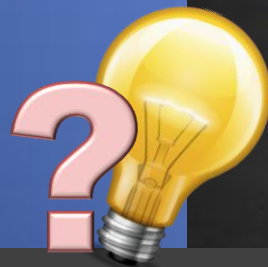


# Corporate Governance Unit and Rating of Companies



## Will be responsible for:

- Interpreting data relative to corporate governance
- Recommending further actions to improve a companies CG Framework



Ranking companies based on best corporate governance practices



# Negative Listing of Agents

**The Issue:** redundancy and confusion of results

**Cause:** Difference in process for negative listing and imposition of sanctions

Circular No	: 17 - 2006
Date	: May 18, 2006
Supersedes	: New

## CIRCULAR LETTER

**TO :** ALL LIFE AND NON-LIFE INSURANCE COMPANIES  
DOING BUSINESS IN THE PHILIPPINES

**SUBJECT :** NEGATIVE LIST OF AGENTS

To further promote professionalism on the sales force of the insurance industry and to protect the insuring public and other stakeholders, this Commission hereby directs all life and non-life insurance companies to submit to the Commission a list of their inactive as well as active agents who may not be qualified to transact insurance business with the Office with a list of your inactive as well as active agents who may not be qualified to transact insurance business with the Office or with pending complaints filed against them before the company, any administrative body or court for, committing any of the following:

1. willfully violating any provision of the Insurance Code; or
2. intentionally making a material misstatement in his application to qualify as an insurance agent; or
3. obtaining or attempting to obtain a license by fraud or misrepresentation; or
4. fraudulent or dishonest practices; or
5. misappropriating or converting to his own use or illegally withholding moneys required to be held in a fiduciary capacity; or
6. not demonstrating trustworthiness and competence to transact insurance business as an insurance agent in such manner as to safeguard the public; or
7. materially misrepresenting the terms and conditions of policies or contracts of insurance which he seeks to sell or has sold.

The list must be duly certified to by a responsible officer of the insurance company with a rank of at least Vice President and submitted to the IC not later than June 15, 2006 and thereafter, every 15<sup>th</sup> of the month. In case the company has no such mentioned agents, it has to submit a certification to that effect.

**Status:** Reviewing the Framework of Regulating Agents



# Investment Opportunities

- At least 5% will be allocated to public infrastructure spending
- Opportunity to purchase corporate or PPP bonds
- Opportunity to buy equities in infrastructure companies

## MANILA BULLETIN

The Nation's Leading Newspaper

### NEDA sets PH 2017 growth to 6.5–7.5%

Government expects PH to hit 6–7% growth for 2016

Updated December 15, 2016, 2:56 PM

By MB Online

This year was a “good one” for Philippine economy and is expected to grow between 6.5 and 7.5 percent next year on the back of sustained growth and reduced poverty and unemployment rates, the National Economic and Development Authority (NEDA) said.

In the agency's year-end briefing Thursday, December 15, NEDA director-general and socioeconomic planning secretary Ernesto Pernia also expressed confidence that the Philippines will “achieve, if not surpass,” its 6-to-7-percent growth target for 2016. The agency also projected that the country's gross domestic product (GDP) in the first three months of 2016 grew by 6.5 percent over the same period last year.





“Most of us understand that innovation is enormously important. It's the only insurance against irrelevance. It's the only guarantee of long-term customer loyalty. It's the only strategy for out-performing a dismal economy.”

Dr. Gary Hamel, American management expert,

Founder of  Strategos

**“ Without change there is no innovation, creativity, or incentive for improvement. Those who initiate change will have a better opportunity to manage the change that is inevitable. ”**

**-William Pollard**



# THANK YOU!

