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RURAL BANKS AND MICROINSURANCE REGULATIONS

**THE ROLE OF THE RURAL BANKERS ASSOCIATION OF THE
PHILIPPINES IN HELPING DEVELOP A FACILITATIVE
REGULATORY ENVIRONMENT FOR MICROINSURANCE CROSS-
SELLING BY THEIR MEMBERS**

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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BACKGROUND

The Philippines has been held up as an international example of a progressive national policy approach to microinsurance since the ground-breaking legislation allowing Mutual Benefit Associations¹ offering microinsurance products to their members. This legislation was seen as a successful approach to getting insurance products to the low income markets by allowing a reduced minimum capital and a loosening of other Insurance Act requirements for MBAs while subjecting them to at least limited Insurance Commission oversight. Starting with CARD, this regulatory provision has resulted in access to microinsurance products by millions of low-income people in the Philippines.

This law restricted MBAs to offering only a range of life insurance products for their members. This limitation, coupled with knowledge that members also required non-life insurance covers led MBAs to develop relationships with insurers that could help them provide a wider range of products. The experiences of these relationships showed that insurers could work with MFIs. This demonstration attracted other insurers selling microinsurance through the MBAs and other organizations to offer a broader range of microinsurance to a broader market than simply MBAs. In this phase, Philippines insurers found the power of working through intermediaries to expand their markets into profitable lines.

At the same time, the rural banks, growing to serve over six million clients in 2011, were excluded by the General Banking Act from offering insurance as the insurer.² For years, several insurance companies provided rural banks with a basic credit life insurance product to cover their loan clients. However, beyond this, rural banks were essentially excluded from offering their clients a fuller range of insurance services. Additionally, the restriction on rural banks coupled with the opening of MBAs, resulted in an uneven playing field for rural bankers and their clients.

Recognizing the potential benefits of microinsurance, the Philippine Government initiated world leading efforts to improve the environment for microinsurance. The effort was one to facilitate and incentivise entry into microinsurance by insurers. This effort was in sharp, arguably more positive, contrast to the efforts of India and South Africa – two other international examples – where microinsurance provision was mandated by government.

In 1997, the Government of the Philippines introduced a National Microfinance Strategy. This strategy included mention of microinsurance though in a limited manner. The success of the microfinance

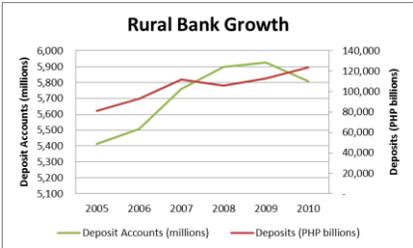


¹ Presidential Decree No. 612 (Ordaining and Instituting an Insurance Code of the Philippines, December 18, 1974) contains Chapter VII Sections 390-409 on Mutual Benefit Association (MBA).

² The General Banking Act section 54 prohibits all banks, including rural banks, from directly engaging in the insurance business as the insurer. Earlier this was strictly interpreted to mean that banks cannot act even as an agent.

strategy was a clear precedent for an approach to developing and implementing a microinsurance strategy. Launched in January 2010 this National *Microinsurance* Strategy focused attention on the benefits and potential of microinsurance in the Philippines, and acted to promote the development and formalization of structures to support microinsurance.

Among the key benefits of the National Microinsurance Strategy approach, was that various government entities took a more unified approach to microinsurance. Where in other countries, the Insurance Commission may work alone to try to enhance microinsurance provision, in the Philippines all key governmental areas have been involved in coordinating efforts, at least to some extent. This coordination has proven critical to improving the efficiency of the push for microinsurance in the Philippines. It also sets the stage for significant rural bank entry into the world of microinsurance. In addition, RBAP had long received technical assistance from USAID under its Rural Bankers Association of the Philippines Microenterprise Access to Banking Services (RBAP-MABS) program which agreed to support RBAP in assisting their members to provide microinsurance services.



Source: Author compiled information from PDIC http://www.pdic.gov.ph/files/BSStats/DistributionDomesticDeposits_RB.htm

RURAL BANKS AND MICROINSURANCE

Even before MFIs and other efforts to get financial products to the low income markets of the Philippines, rural banks were prolific throughout the country. Their growth has been nurtured, prompted, and developed through the efforts of the Rural Bank Association of the Philippines (RBAP). Since 1955 when representatives of eighteen rural banks formed as “a non-incorporated association of institutions engaged in a common endeavour”³ RBAP has provided key inputs to help identify and address important issues among the rural bank network. Additionally, they have been instrumental in advocating for the members on a national level and in lobbying the various levels of government for appropriate benefits and treatment of rural banks. The efforts of the rural banks coupled with those of the RBAP has resulted in over six million mostly low income people enjoying the benefits of access to efficient and client focused financial services.

Traditionally, rural banks have been limited to various credit and savings products especially those focused on microfinance and low-income households. Many rural banks have also provided basic credit life insurance to protect the rural banks and their client’s families from default due to borrower death. RBAP and its members have long recognized the importance of the risk management potential of microinsurance, but were legally restricted from providing microinsurance products to their clients until 2010.

³ <http://www.rbap.org/about/history/>

In 1992, Congress enacted the Republic Act No. 7353, which redefined rural banks, specified the accreditation process, and listed the activities in which rural banks could be involved (see Box 1). Eight years later in 2000, a General Banking Law was established to encompass various types of banks including rural banks, cooperatives, Islamic banks, commercial banks, and others. The General Banking Law of 2000 specifically recognized rural banks as organizations defined by and which abide by the Rural Banks Act of 1992. In both acts, the role of banks as collectors is established and limitations on allied undertakings are set into place. Each of these specifications prevented banks from providing microinsurance. Along with these regulations, the General Banking law explicitly states that banks are prohibited from acting as insurers. In part due to strong advocacy support provided by RBAP as well as the proactive stance of the Bangko Sentral ng Pilipinas to provide a better enabling environment to encourage financial inclusion, the Monetary Board released a circular in 2010 that recognized microinsurance as an allied undertaking and allowed rural, cooperative and thrift banks to market, sell and service microinsurance on behalf of licensed insurance providers. As a result of the 2010 interpretation of the General Banking Law, rural banks could now legally provide microinsurance to their clients by acting as agents on behalf of licensed microinsurance providers.

Box 1: Rural Banks restricted from selling insurance

The Republic Act ("Rural Banks Act") 7353 (1992) notes that Rural Banks are legally limited to the following activities:

- i) Extend loan or advances to meet credit needs
- ii) Accept savings and time deposits
- iii) Open current or checking accounts
- iv) Act as a correspondent for other financial institutions
- v) Act as a collection agent
- vi) Act as official depository of municipal, or city or provincial funds
- vii) Rediscount paper with other banking institutions
- viii) Offer other banking services as provided in Section 72 of Republic Act No. 337
- ix) Extend financial assistance to private and public employees
- x) Investment in equities of allied undertakings as specified hereinafter:

The "General Banking Law of 2000" offers a somewhat updated list of acceptable activities:

SECTION 53. Other Banking Services. — In addition to the operations specifically authorized in this Act, a bank may perform the following services:

- 53.1. Receive in custody funds, documents and valuable objects;
- 53.2. Act as financial agent and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities;
- 53.3. Make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business;
- 53.4. Upon prior approval of the Monetary Board, act as managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and
- 53.5. Rent out safety deposit boxes.

The 2000 Law goes on to specifically restrict activities as an insurer:

SECTION 54. Prohibition to Act as Insurer. — A bank shall not directly engage in insurance business as the insurer. (73)

Taken at face value, the combination of prohibiting acting as an insurance agent (requires sales and thus is not simply a collection agent) and any engagement as an insurer, effectively eliminates the potential for rural banks acting in any capacity in microinsurance.

However, Section 20 of the same Act proves critical as the process moves forward as it provides a potential window to include microinsurance cross-selling when it notes:

SECTION 20. Bank Branches. — Universal or commercial banks may open branches or other offices within or outside the Philippines upon prior approval of the Bangko Sentral. Branching by all other banks shall be governed by pertinent laws. A bank may, subject to prior approval of the Monetary Board, ***use any or all of its branches as outlets for the presentation and/or sale of the financial products of its allied undertaking*** or of its investment house units.

Sources: Republic Act ("Rural Bank Act") No. 7353, Sections 6,7,12, and 13 and the Republic Act ("General Banking Law") No. 8791, 2000.

AN ARGUMENT FOR RURAL BANKS CROSS-SELLING MICROINSURANCE

The evolving positive interventions of Government in microinsurance created an opportunity for RBAP to push its argument that its members should be able to obtain expanded legal powers allowing them to sell a range of microinsurance products to their clients. Using the argument that if there is a true desire to expand microinsurance throughout the country, one of the strongest potential delivery channels with among the greatest outreach (in aggregate) in the Philippines – Rural Banks - had to be included. The Bangko Sentral ng Pilipinas (BSP) and the Insurance Commission realized the potential of rural banks to be able to dramatically increase access to microinsurance especially in rural areas given the significant client base of approximately 6 million clients and their estimated ten million family members.

In the midst of growing recognition of the potential for microinsurance and a clear movement towards microinsurance as a policy tool of the government, RBAP recognized that it was time to make their move to actively argue the case to enable their members to offer microinsurance to their clients. In September 2008, RBAP shared their Position Paper on Microinsurance with the Insurance Commission and the BSP. This paper represented a reasoned approach to rural banks in microinsurance addressing the issues and concerns with proposals to address them. Addressing issues such as institutional models, premiums collection and claims facilitation, client education and information provision, and reputational risks, this proposal helps guide implementation of their microinsurance efforts up until the present time. With this formal Position Paper, RBAP management then moved to get the approvals necessary for legal delivery of microinsurance.⁴

In October 2008, RBAP met with the Insurance Commission to press their case for rural banks as agents of microinsurance. In this meeting RBAP representatives laid out their argument for rural banks in microinsurance, noting that Rural Banks would be an important component of fulfilling the Commission’s vision of making “the Philippines the microinsurance capital of Asia”. RBAP argued that:

“By empowering rural banks to partner with regulated insurers, the rural banks can dramatically increase the access to microinsurance services by:

- Dissemination of product information for various partner-insurance companies
- Distribution of insurance applications on behalf of partner-insurance companies
- Collection of premiums for insurers
- Facilitation of claims pay-outs on behalf of the insurers
- Gathering of client feedback on insurance products and services”⁵

⁴ A full copy of the September 22, 2008 “RBAP Position Paper on Microinsurance” is available in Appendix 2 of this paper.

⁵ Tomas Gomez IV, RBAP President in a letter dated 27 October 2008 (reflecting a meeting of 6 October 2008) addressed to Ms. Vida Chiong, Deputy Insurance Commissioner, Philippines.

At this time, RBAP also requested an adjustment of the “cap on the face amount for microinsurance”⁶ to improve the flexibility and responsiveness of microinsurance. RBAP was both trying to create an opening for its members in microinsurance and working to make sure that when that door was opened, members would be able to offer products of value to their clients.

Clearly recognizing the benefits of such a proposal as well as the fit with Insurance Commission policies and objectives, Deputy Commissioner Chiong responded positively that “we [the Insurance Commission] interpose no objection to your proposal for rural banks to cross sell the microinsurance products of insurance companies to their customers.”⁷

The Deputy Commissioner went on to note: “However, since under the BSP Circular No. 357 of 2002 only universal and commercial banks are allowed to cross sell the insurance products of insurance company affiliates, we would advise that you pursue with the BSP the necessary amendment to said circular to enable the rural banks to engage in this insurance business activity.” It took more than one year for RBAP to successfully lobby and engage with the BSP to come up with a solution that would allow their members to legally market, sell and service microinsurance.

DEVELOPING A LEGAL FRAMEWORK

In the Philippines, as in most countries, there are several levels of regulatory documentation. “Acts” are at the highest level and are debated and approved by Congress. These represent the legal framework of the regulations and are intended to be strictly set and difficult to change since any adjustments need to go back to Congress for approval. However, because they represent simply the framework, these Acts are left up to interpretation by the various regulatory bodies. These bodies are then tasked with issuing “circulars” and “memorandums” to interpret and clarify legislation.

In the case of banks, the appropriate regulatory body is the BSP and the Philippine Monetary Board, and for insurance, interpretation of the laws rest with the Insurance Commission. From the regulatory perspective, the legal structure to implement the National Microinsurance Strategy has been primarily driven by the proactive and creative effort of the Bangko Sentral ng Pilipinas and the Insurance Commission to issue Circulars and Memorandums. Indeed the key legal document guiding the expansion of microinsurance is Insurance Memorandum Circular 1-2010 “Regulations for the Provision of Microinsurance Products and Services”. This major initiative did not require an Act of Congress but was accommodated through the authority of the Insurance Commission under the Insurance Act of 1974.

In addition, the efforts exerted by the Bangko Sentral ng Pilipinas to interpret the General Banking Act through the issuance of several circulars and memorandum allowed for banks to actively partner with

⁶ Ibid.

⁷ Vida Chiong, Deputy Insurance Commissioner in a letter dated 3 November 2008 addressed to Tomas Gomez IV.

licensed microinsurance providers. Of particular significance is the interpretation that recognized microinsurance as a financial product of an allied undertaking that allowed the potential offer of microinsurance on a significant scale within the framework of available banking laws and prudential standards. This created a significant opportunity for rural banks that fast-tracked their ability to sell microinsurance products of insurers.

The development of an appropriate regulatory enabling environment for microinsurance in the Philippines is a testament to the creative approaches of the both Insurance Commission and the Bangko Sentral ng Pilipinas. See Appendix 1 for a timeline of significant related legal issuances related to microinsurance and rural banks.

ADDRESSING ISSUES WITH THE BSP

After the meeting and subsequent letters between RBAP President Gomez and Deputy Insurance Commissioner Chiong, in September 2008, it was clear that the Insurance Commission was actively supportive of the inclusion of rural banks as microinsurance delivery channels. The effort to address the issues of rural banks cross-selling microinsurance then shifted to the BSP.

The General Banking Law of 2000, specifically states that “...a bank shall not directly engage in insurance business as the insurer.” Unlike the bigger universal and commercial banks, rural banks likewise did not have the resources to invest in assurance entities that could offer insurance services to their clients. In the proposal submitted by RBAP, Rural Bank participation in microinsurance focused on Rural Banks as agents selling microinsurance, instead of as risk-takers actually managing the insurance risk. Simply facilitating rural banks to market, sell, and service microinsurance products of regulated insurers actually imposed very little financial risk on the rural bank. Indeed the availability of good quality insurance products to rural bank clients actually was proposed as having the potential to improve the financial stability of the rural banks by protecting the banks and their clients from certain financial risks that might affect repayment behavior.

A number of meetings were held with the BSP in early 2009 to lay out the issues and begin to discuss potential solutions to the problem of the restriction of banks from engaging in the selling of microinsurance. It was clear that the BSP saw the benefits of opening the restriction to allow rural banks to sell microinsurance to their clients. The RBAP argument was facilitated by the fact that RBAP members intended to act as agents rather than as risk takers themselves. This dramatically limited the risk to the rural bank.

Discussions with the BSP reached a crescendo in July 2009. During a meeting between RBAP and the BSP, the following key issues were discussed:

- The restriction on bancassurance to those with a 5% equity stake in the insurance affiliate. It was argued that such a restriction actually hindered good microinsurance because it eliminates competitive forces, which are beneficial to rural banks and their clients. The BSP

was also working on defining business partnerships in a way that complied with the allied activities allowed under the Act.

- Potential restrictions on products for rural banks (such as with MBAs). It was argued that as an agent, rural banks could be more efficient and could leverage competition if allowed to offer a range of products.
- Agent licensing where all agreed that an institutional licensing would be preferable to individual licensing.
- Efficient training program. RBAP noted that they had the experience and track record to work with private sector and the BSP to provide appropriate training and technical assistance to their members to fulfill regulatory requirements and be granted licenses to be agents for insurance companies.
- Offering products consistent with microfinance principles as well as consumer protection. RBAP also noted how their training program and oversight plans would facilitate effective product development and basic consumer protection.
- General documentation issues where all agree that documentation related to microinsurance should be minimal and simple and not add significant administrative burden to any party.



Examples of how these issues are addressed, both effectively and ineffectively, in countries around the globe were also discussed in order to provide additional context. The BSP noted that this was possible within the Banking Act if the business partnership could be legally considered an “allied undertaking”. Such an application would open insurance sales through partnerships not only to rural banks but to all banks and MFIs.

Two days after this meeting, the BSP announced publicly at a microinsurance roundtable discussion that:

“The BSP is currently looking at ways to address the policy issues relating to the distribution of microinsurance. Because right now you are aware of the barriers imposed by the General Banking Law, RA 7353. We are trying to find ways for Microinsurance to have some amendment on circular 357 to allow the distribution of Microinsurance thru the other categories of banks such as rural banks, cooperative banks, and thrift banks.”

On 29 January 2010 the Department of Finance and the Insurance Commission launched the National Strategy and Regulatory Framework for Microinsurance. These documents were the culmination of more than two years of work by working groups of the DoF, and included extensive consultations throughout 2009. As a reflection of the government wide motivation for such a framework, the steering committee for the project included representatives of the DOF, Insurance Commission, Bangko Sentral ng Pilipinas, Securities and Exchange Commission, Cooperative Development Authority, National

Anti-Poverty Commission and PhilHealth. This level of coordination among government authorities is an excellent example of an effective approach to microinsurance policy that other governments can learn from.

As a tangible reflection of the RBAP's proposals and the inter-governmental cooperation on microinsurance, on 23 February 2010 the BSP enacted BSP Circular 683 on Marketing, Sale, and Servicing of Microinsurance Products allowing rural banks to cross-sell and service microinsurance. The Circular notes:

“The presentation, marketing and sale of microinsurance products by rural, cooperative and thrift banks have been determined to be a necessary and complementary component of the primary business of rural, cooperative and thrift banks considering the relationship of the latter with their microfinance clients. For this purpose, the Monetary Board has defined that for rural, cooperative and thrift banks, microinsurance products as defined under IMC No. 9-2006² and 1-2010³ shall serve as a “financial product of an allied undertaking” under Section 20 of the General Banking Law.

A rural, cooperative or thrift bank can also service (i.e., collect premiums and pay claims) microinsurance products as collection and payment agents pursuant to Section 53.3 of the General Banking Law.”

Circular 683 also defines the requirements for rural banks to obtain approval from the BSP. These details are provided in Appendix 3. This circular was provided to RBAP for discussion and comments. RBAP made several suggestions especially related to allowing rural banks to service the policies. These suggestions were incorporated by the BSP in the final version of the circular, which clearly provided a positive response to suggestions by RBAP.

In parallel to its work with the BSP, RBAP continued to keep up with the progress of the Technical Working Group in order to address any issues or opportunities within the drafts or the process that might impact their members. They successfully engaged both the Insurance Commission and the BSP to simplify and standardize the licensing process, and clarified what banks would be able to do and which types of clients they could service.

THE CHALLENGE IS IN THE DETAILS

Once the legal basis for rural banks was set in BSP Circular 683 and in IMC Circular 1-2010 the work of RBAP then moved to addressing the details to ensure maximum effectiveness of implementation by rural banks. A series of issues arose from the circulars that RBAP considered important enough to address with the BSP and IC. These two government entities remained prudent and thoughtful, while at the same time were reasonably flexible and open to considering issues presented by RBAP. Certainly a key factor in this open door policy were that RBAP addressed issues in a professional manner, backed

up their arguments with examples of international experiences in dealing with the same issues, and maintained strong relationships with key parties in the process.

As one example of RBAP intervention, with multiple reviews of the IC Memorandum Circular 1-2010 RBAP identified a significant issue related to eligibility as a microinsurance client. Circular 1-2010 item 6.4 notes that: “Microfinance Institutions or institutions engaged in microfinance operations [which include rural banks] may apply and be licensed as a microinsurance agent, provided that The institution sells microinsurance products only to its microfinance clients.” This definition, RBAP argued in its Position Paper of April 2010, dramatically and needlessly restricts access to microinsurance to only microfinance borrowers and not other microfinance clients or their family members. Covering families not only expands valuable cover, but also strengthens the microfinance provider through greater stability of their clients. RBAP recommended that the BSP broaden the formal definition of “microfinance” to ensure that all clients including traditional microfinance clients, micro depositors and other low income clients such as farmers and rural salary loan clients as well as family members could be included.

In response to this point, in September 2010 the BSP issued Circular 694-2010 which reconciled the definitions of microinsurance for the BSP with that of the IC. In addition, to further clarify issues raised by RBAP, the BSP issued Memorandum M-2011-027 on May 2011 which clearly addressed the client definition issue by reiterating the definitions of microfinance borrowers and savers from BSP Circular 694, and then adding that a microfinance client is also defined as: “3. Other existing bank clients who are classified by the bank as poor or low income.”⁸ This phrase opened the door to rural banks offering microinsurance to all low income clients of the bank including rural farmers and salary loan clients who previously were not classified as microfinance clients.

This demonstrates the catalytic role that RBAP has played as well as the important coordination that took place between different governmental agencies, especially the BSP and IC to facilitate, with prudence, microinsurance access.

IMPLEMENTING THE PROGRAM WITH RURAL BANKS

With over 600 rural banks in the Philippines, RBAP recognized the need to facilitate registration of their members in order not to overwhelm the BSP and IC with members applying for approval. With support from USAID funded RBAP-MABS program as well as a timely grant from the International Labour Organization’s (ILO) Microinsurance Innovation Facility, RBAP promoted a “one-stop-shop” for rural bank microinsurance training and license accreditation that resulted in over 160 rural banks being trained in 2011 alone. RBAP developed the training curriculum, provides the required training programs, and works with members to compile and complete their applications. In developing the

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training curriculum, RBAP held discussions with the Philippine Life Insurance Association (PLIA) and the IC.

In addition, RBAP tested the training curriculum and adjusted the format to develop their TRACS⁹ process which is used to train and facilitate the microinsurance agent license application process today. To facilitate the TRACS Process, RBAP provides all trained banks with a checklist of all documents required by the IC and BSP in order to complete their Microinsurance Agent License. This checklist helps to ensure that banks are able to properly complete and track all the requirements in a timely and efficient manner. The TRACS process prescribes the following steps for rural banks:

1. TRAIN in Microinsurance Basic and Product Mastery
2. REQUEST for a No Objection Notice from the BSP
3. ASSEMBLE your Microinsurance Core Team
4. CHOOSE the bank's partner-insurance provider
5. SUBMIT complete requirements to the Rural Bankers Research and Development Foundation Inc. (RBRDFI)

RBAP also entered into agreements with ten insurance companies and brokers to collaborate in the training as well as assisting rural banks to develop principal-agent partnerships to deploy microinsurance.

In formalizing the training process the Insurance Commission issued IC Circular 6-2011, which outlines training requirements and sets qualification standards for training curricula and training organizations. RBAP was the first to be accredited by the IC as an accredited training organization for rural banks and remains the main trainer for interested and qualified rural banks to become licensed as microinsurance agents.¹⁰

In an effort to facilitate the full process of rural bank licensing, RBAP also worked with the BSP and the IC to ensure efficiency in its one-stop-shop for rural bank licensing. In this process, RBAP works with members to compile documents and complete the application and training requirements. This way the level of effort is minimized for the BSP and IC, and rural banks can be assisted by RBAP with all aspects of their applications including providing the banks with approved templates and standardized checklists to facilitate the approval process.

During a meeting with IC and BSP on 20 December 2010, RBAP (with RBRDFI) presented the details of their intended role with their members in microinsurance going forward as:¹¹

⁹ TRACS stands for Train, Request, Assemble, Choose, and Submit

¹⁰ Details of curricular content and rural banks responsibilities related to the training are presented in IC Circular No.6 of 2011, "Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents" while the requirements for Rural Banks offering microinsurance are provided in [BSP Circular No. 683 of 2010, "Marketing, Sale and Servicing of Microinsurance Products"](#).

¹¹ Source: 4 January 2011 letter to Deputy Commissioner Chiong from RBAP President Corazon Liamson-Miller, RBAP President.

1. Assisting rural banks and their insurance partners through support in fulfilling microinsurance licensing and accreditation procedures
2. Developing the capability of designated rural bank microinsurance soliciting officers and other bank staff
3. Promoting insurance literacy among rural bank microfinance clients.

As a result of RBAP's work on the regulatory side and the development of the turnkey training and licensing support provided by RBAP, 168 rural banks have successfully completed the Basic Microinsurance course. This qualifies them to apply for Microinsurance Agent licensing with IC and cross-selling authorization with the BSP. Of those trained, RBAP has assisted 61 rural banks via the TRACS Process. This has resulted in seventeen (17) banks issued their Microinsurance Agent License by the Insurance Commission and four (4) banks authorized by the BSP.¹²

POTENTIAL FUTURE ISSUES

Pilot testing allows for identification of issues to be addressed and provides more confidence in moving to the next level. This is likely to be the same for rural banks in microinsurance. Some issues that may present themselves include:

- A desire by rural banks to consider registering as insurance brokers might arise as such a change might provide for additional product options, and access to additional insurers, and well as a different income structure. An analysis of requirements of rural banks in acting as brokers and agents is provided in Appendix 4.
- Consumer protection issues are likely to arise as clients are purchasing microinsurance on trust. Rural banks with the leadership of RBAP should consider developing a mechanism for clients to contact if they believe they have been mistreated. This may simply be a shared call center that can direct clients to someone designated to assist clients.
- As rural banks develop skills in offering microinsurance their training needs will change. RBAP should consider an evolution of training to continue to comply with the intent of the law.

Other issues will arise and it will be important that RBAP creates and maintains a small structure to continue to assist members to maximize their interventions in microinsurance.

CONCLUSIONS

In the Philippines, it is clear that many people and organizations have been collectively responsible for the dramatic and positive example the Philippines has shown the world in terms of microinsurance. The commitment to microinsurance and cooperation between and among government and private sectors entities, following a reasoned and prudent path to facilitation of microinsurance, has led to a strong and unified focus on facilitating expanded access to microinsurance that is driven by the private

¹² Results of the TRACS training process as of February 8, 2012

sector. In the midst of this powerful movement, RBAP has remained focused on its members and the needs of their clients. This quiet focus has yielded significant improvements in policy, process, client value, and potential outreach. Without the careful and thoughtful inputs of RBAP throughout this process, it is likely that rural banks would have much less potential as a driver of microinsurance in the Philippines, and many fewer low income families would experience the security of good microinsurance products.

RBAP has also benefited immeasurably from the technical support and assistance provided by USAID under the RBAP-MABS program that had a dedicated component to support the development and support for rural banks to offer microinsurance. To move beyond the initial small target of the RBAP-MABS program in 2008, the timely grant of the ILO Microinsurance Innovation Facility also assisted RBAP and the Rural Bankers Research and Development Foundation Inc. (RBRDFI) to not only capitalize on the RBAP-MABS program but also to leverage this support and expand training and technical assistance to all their interested and qualified member rural banks. This unique public private partnership is a tremendous example for donors and other countries to consider.

APPENDIX 1: TIMELINE OF RELEVANT LEGAL PRONOUNCEMENTS

| | Central Bank (BSP) | Insurance Commission |
|------|--|---|
| 1974 | | Insurance Code established by Presidential decree |
| 1978 | | Insurance Code amended by Presidential decree |
| 1992 | Rural Bank Act | |
| 1997 | National Microfinance Strategy, including microinsurance | |
| 2000 | General Banking Law of 2000 | |
| 2002 | BSP C. No. 357 – Rules and regulations amending the Manual of Regulations for Banks to implement Section 20 of the General Banking Law of 2000 | |
| 2006 | | IMC C.No.2 - Increase in the Amount of Guaranty Fund of Mutual Benefit Associations (MBAs) |
| | | IMC C.No.6- Adoption of Risk-Based Capital Framework by the Life Insurance Industry |
| | | IMC C.No.7 - Adoption of Risk-Based Capital Framework by the Non-life Insurance Industry |
| | | IMC C.No.9 - Microinsurance Regulation and Declaration of Policy Objectives |
| | | IMC C.No.11 - Adoption of Risk-Based Capital Framework by MBAs |
| 2007 | | IC C.No.15 - Guidelines for the Implementation of KYC and CDD Requirements |
| 2010 | BSP C. No. 683 - Marketing, Sale and Servicing of Microinsurance Products | IMC C. No. 1 - Regulations for the Provision of Microinsurance Products and Services |
| | BSP C. No. 694 - Amendment of Regulations on the Establishment of Other Banking Offices and Notes to Microfinance | IC-CDA-SEC C.No.1 - Defining Government's Policy on Informal Insurance Activities |
| | | IC-CDA-SEC C.No.2 - Guidelines on the Treatment of Funds Collected from Informal Insurance Activities |
| 2011 | BSP M.No.15 - Reminder on the Proper Offering of Microinsurance Services | IC C.No.5 - Performance Standards for Microinsurance |
| | BSP M.No.27 - Guidance for the Implementation of Circular 683 on Marketing, Sale and Servicing of Microinsurance Products | IC C.No.6 - Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents |
| | | IC-C No. 39-2011 – Re-Approval of Microinsurance Products |

APPENDIX 2: RBAP POSITION PAPER ON MICROINSURANCE SEPTEMBER 22, 2008

Background

The Rural Bankers Association of the Philippines (RBAP) recognizes that a significant proportion of low- as well as middle-income households in the country remain vulnerable to financial shocks such as loss of an income earner due to unexpected death or disability. This places them at risk of increased poverty as they resort to such drastic options such as selling productive assets or suspending children's education in order to cope with the losses.

Access is a major touch point. Low-and middle income households have limited access to information and outlets for effective insurance products and services. A 2008 study by RIMANSI on the landscape of microinsurance in the country reveal that despite the 33 life, 94 non-life and 3 composite insurers in the Philippines, insurance penetration rates remain low with insurance premiums representing only 1.2% of GDP¹³. According to the study, of the 54.1 million adults in the country, only 5.4% (2.9M) is estimated to access microinsurance while only 3.1% (1.7M) is actually reached by formal insurance providers. Formal microinsurance share of rural banks is estimated to be at 30% or 840,000, with their micro-finance clients reached through the banks' compulsory credit life insurance services. But there is growing recognition of the value of partnering with commercial insurance providers who are more capable of underwriting group policies for their clients. With enhanced regulatory support, rural banks can thus facilitate better access to regulated and formal insurance for low-and middle-income households especially in the countryside, which at the very least may be achieved through their dissemination of information to their microenterprise clients.

Demand for insurance is big but affordability a barrier. A recent survey of 200 microenterprise clients of rural banks conducted by the Microenterprise Access to Banking Services (MABS) Program reveal a large demand for insurance protection. Among the clients who have no insurance, 60% would like to purchase insurance with coverage for their family. However, of these, 31% cited affordability as a barrier to buying insurance. In addition, 79% of those without insurance currently use savings and/or earnings from business to finance their illness-related expenditures.

Rural banks generally provide mortgage redemption insurance (MRI). MRI minimizes the bank's lending risks and, hence, appears to protect the bank's interests more than that of the client's. However, some rural banks offer other insurance services such as additional life, accident, and/or health insurance to respond to the needs of their clients. A survey of 46 rural banks by MABS in February 2008 indicate that all (100%) currently offer MRI/credit life for their microenterprise clients, while some 17% of those surveyed offer additional insurance services through informal schemes in order to respond to the market demand and compete, particularly with unregulated microfinance institutions.

RBAP strongly advocates the partner-agent model. There are at least two (2) formal models to providing insurance protection to rural bank clients: the partner-agent model and the mutual benefit

¹³ Source: "Facilitating Inclusive Financial Markets: The Role of Regulation in the Development of Microinsurance (Focus Notes: Philippines)" prepared by Genesis Analytics.

association (MBA) model. Mutual Benefit Associations (MBAs) are allowed to be established by the Insurance Commission as entities owned and managed by members; the MBA model is presently used by at least a couple of rural banks.

Among the two models, however, RBAP would like to promote the partner-agent model since this approach will:

- balance response to financial risks for both the rural banks and their microenterprise clients;
- facilitate access to quality and affordable insurance products by licensed (and regulated) insurers who can effectively provide for secure protection for low-income households;
- be most efficient and beneficial to the banks, since it is the insurer and not the bank that bears the risk and is responsible for regulatory compliance; and
- promote transparency and legitimacy

Rural banks are best positioned to reach the low-income markets with micro finance services which apart from loans, savings and money transfer, include micro insurance. Through its current banking services and with strategically located 678 head offices and 1,348 branches and field offices nationwide¹⁴, rural banks currently service 700,000 microenterprise borrowers and more than 5,000,000 micro-deposit accounts that are generally in the countryside. However, current regulations on banks offering insurance services restrict rural banks from effectively facilitating access to micro-insurance services in the countryside, and may tend to drive the alternative in favor of informal insurance schemes.

RBAP Proposals

In view of the foregoing, and in support of the *partner-agent model*, the RBAP would like to propose the following measures to define what rural banks can and cannot do. The proposals below should be taken in the context of rural banks as “enablers” that will facilitate for their micro clients easy access to simple, easy to understand and affordable insurance products where claims are speedily responded to.

1. Information dissemination on insurance products: Rural Banks to disseminate information about insurance products/services

- *BSP Circular No. 357 series of 2002 currently allows only universal and commercial banks to use their offices and branches for the presentation and sale of other financial products, among which is insurance.*

Proposal:

Allow rural banks to use its head office and/or any or all of its branches in the presentation and sale of insurance as an allied financial product, provided that it is made clear and distinguishable to the public that the insurance product is offered by a separate private insurance provider and not the bank. The rural bank’s existing staff or field agents may be trained and deployed for this purpose, discounting the need for the employment of additional bank staff for the promotion of microinsurance by the bank.

Allow rural banks to provide bank clients with information on available microinsurance

¹⁴ Source: Bangko Sentral ng Pilipinas, data as of September 2008.

products/services through the use of marketing paraphernalia such as, but not limited to, flyers, pamphlets, brochures, banners or videos produced in accordance with mutually agreed upon conditions with the partner-agent insurance provider. The promotional materials and paraphernalia used in the sale of the insurance products shall disclose the following:

- The logo of the partner-agent insurance provider accompanied by “a marketing partner of (name of rural bank)”
- A disclaimer that the insurance product is not guaranteed by the Philippine Deposit Insurance Corporation nor by the rural bank.
- All other product limitations that may affect the interest of the client.

The partner-agent insurance provider shall conduct training for the rural bank officers and staff who will be involved in relevant information dissemination initiatives to ensure that they do not unwittingly guarantee or give the impression that the insurance product(s) being offered are those of the rural bank.

2. Processing and premiums collection: Allow rural banks to facilitate the processing of applications and collection of insurance premiums, and to collect service fees in much the same way that this is allowed for the other banking services to service payrolls, remittance, and SSS and Philhealth premium collection.

- *The affordability of the insurance products will be key to reaching the micro clients using the rural banks will reduce the transaction costs, and, hence, the cost of premiums.*
- *Existing regulation contained in Section 299 of the Insurance Code prohibits the granting of commissions or other compensation to entities and individuals for services in obtaining insurance unless registered with the IC as an agent or broker for the insurance company. This is a regulatory issue that the RBAP would like to sort out with the Insurance Commission and the BSP as service fees for facilitating the collection of premiums will need to be allowed.*

Proposal:

Authorize rural banks to act as collecting agents of commercial insurance companies or third party insurance service providers under the following guidelines:

- (1) Clients may pay their premium contributions to the insurance provider through the rural banks. The funds so collected shall be remitted to the insurance provider in accordance with the remittance schedule mutually agreed upon by the rural bank and the partner insurance provider, which in no case shall exceed sixty (60) days from receipt thereof;
- (2) During the period that the premium contributions are in the custody of banks, such funds shall not earn interest;
- (3) The funds collected by the banks shall be handled by the operating departments (cash departments) of the banks concerned and not their trust operations: *Provided, however*, that such funds shall be subject to the reserve requirement on deposits and to the liquidity floor on government deposits.
- (4) For facilitating applications and collecting premiums on behalf of the insurance agency, the banks may collect a service fee similar to fees generated by the banks as collection agents for accredited service providers and utility companies.

3. Claims payments: Rural banks to facilitate claims payments on behalf of the partner-agent insurance providers

- *Insurance Commission Circular Letter 22-2006 clarifies that requirements on deposit accounts of insurance companies with rural banks are to include (a) a certification from the Philippine Deposit Insurance Corporation, stating that all requirements, including but not limited to, premium payments, have been complied with and (b) the exposure will not exceed the maximum deposit insurance limit of the Philippine Deposit Insurance Corporation.*

Proposal:

Allow rural banks to assist its microenterprise clients in the filing of claims with the partner-agent insurance provider by providing information on the required documents and submission procedures advised by the insurance provider.

Rural banks will also be able to facilitate the payment of claims issued on behalf of the insurance company for the insured based on the insurance contract. All payments must be paid out and authorized directly by the insurance company.

4. Ensured credibility of partner-agent insurance providers: Rural banks to ensure that only stable and reputable insurance providers can offer their products through their bank

- *The partner-agent model ensures the effective delivery of insurance services through contracts with licensed and regulated insurance providers.*

Proposal:

- Rural banks shall require partner-agent insurance providers to submit documents proving their accreditation with and clearance by the Insurance Commission.
- The rural bank will also require the submission of detailed information on the insurance product to be offered, samples of promotional materials to be used and outline of the content of the training materials for the bank's staff and officers.
- The rural bank will furnish the BSP with an original copy of the MOA or MOU entered into with the partner-agent insurance provider on the sale and distribution of insurance to their clients.

APPENDIX 3: REQUIREMENTS FOR APPROVAL BY THE BSP (A SELECTED PORTION OF BSP CIRCULAR 683)

A bank, prior to selling and/or marketing microinsurance products, shall submit the following documents to the BSP as bases for the latter's evaluation:

- 1) Copy of the approval of the bank's board of directors on the presentation, sale and servicing (i.e. collect premiums and pay claims) of microinsurance products;
- 2) Copy of duly executed written agreement between the bank and the insurance provider on the presentation, sale and servicing by the bank of the financial products of the latter, including the terms of compensation for the services;
- 3) Copy of the letter of approval from the Insurance Commission covering each of the microinsurance product to be marketed or sold by the bank;
- 4) Copy of the corresponding Certificate of Authority from the Insurance Commission of the insurance provider/s issuing the microinsurance products to be marketed or sold;
- 5) Bank's license from the Insurance Commission as a microinsurance agent or broker, as may be applicable.
- 6) Certification from the bank president that he/she ascertained and will ensure continuing compliance with the following:
 - a) The product is authorized for cross selling under existing BSP rules and regulations;
 - b) The microinsurance product is approved by the Insurance Commission and issued by an entity duly licensed and held in good standing by the Insurance Commission;
 - c) The bank conducted product due diligence to be suitable to its customers;
 - d) The organic, informational and promotional materials for the microinsurance products comply with BSP requirements; and
 - e) The bank personnel concerned has undertaken the necessary training and passed the qualifying examination for the presentation and sale of microinsurance products, in compliance with the requirements set forth by the Insurance Commission on marketing personnel for insurance products.
- 7) A letter of undertaking from the bank president that he/she will ensure the retention of the following :
 - a) Copies of the latest Certificate of Authority from the Insurance Commission covering all insurance companies whose microinsurance products are being marketed or sold by the bank;
 - b) Copies of the letters of approval from the Insurance Commission covering all the microinsurance products to be marketed or sold;
 - c) Bank's license from the Insurance Commission as a microinsurance agent or broker or in lieu of a bank's license as a microinsurance agent or broker, copies of the license from the Insurance Commission covering all its marketing personnel for microinsurance products; and
- 8) Such other information that may be required by the Bangko Sentral.

APPENDIX 4: REQUIREMENTS APPLICABLE TO A RURAL BANK ACTING AS A BROKER OR AGENT FOR MICROINSURANCE PRODUCTS IN THE PHILIPPINES¹⁵

| | Agent | Broker ¹⁶ |
|----------------------------|---|--|
| General | | |
| Definition | Any person who for compensation solicits or obtains insurance <i>on behalf of any insurance company</i> or transmits for a person other than himself an application for a policy or contract of insurance to or from such company or offers or assumes to act in the negotiating of such insurance (Sec. 300) | Any person who for any compensation, commission or other thing of value acts or aids in any manner in soliciting, negotiating or procuring the making of any insurance contract or in placing risk or taking out insurance, <i>on behalf of an insured other than himself</i> (Sec. 301) |
| Representation | Represents the insurance company (limited to one life and seven non-life insurer relationships) | Represents the insured (unlimited number of insurer relationships) |
| Obtaining a License | | |
| Application | Available at http://www.insurance.gov.ph/html/..%5C_@dmin%5Cupload%5Cservices%5CApnn_InsuranceAgent.pdf | Available at http://www.insurance.gov.ph/html/..%5C_@dmin%5Cupload%5Cservices%5CApnn_InsuranceBroker.pdf |
| Bond | None specified | Must file a bond in an amount fixed by the Commissioner (in no case less than P100,000) (Sec. 302) |
| Indemnity | None specified | Must file two errors and omissions (professional liability or professional indemnity) policies issued separately by two insurance companies authorized to do business in the Philippines, to indemnify the applicant against any claim or claims for breach of duty as insurance broker which may be made against him by reason of any negligent act, error or omission. |

¹⁵ This summary assumes that the products in question are exclusively microinsurance products. The Insurance Commission defines a microinsurance product as “a financial product or service that meets the risk protection needs of the poor where 1) the amount of premiums, contributions, fees or charges, computed on a daily basis, does not exceed five (5) percent 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 500 times the daily minimum wage rate for non-agricultural workers in Metro Manila. The maximum amount of premium and guaranteed benefits shall apply on a per product or per policy basis. In the case of a bundled product, this shall apply to each component of the bundled product.” (IMC No. 1-2010) Capital and other requirements differ for brokers and agents involved in the sale of non-microinsurance products.

¹⁶ IMC No. 1-2010 contemplates the existence of microinsurance brokers, but the Insurance Commission does not appear to have issued a circular memorandum providing detailed requirements for microinsurance brokers (although one appears to be forthcoming: <http://phildevfinance.posterous.com/rural-bankers-train-in-microinsurance>)

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| | | Amounts shall be determined by the Commissioner (but in no case less than P500,000 each) (Sec. 302; 2008 List of Requirements for Broker License) |
| Capitalization | Capitalization requirements are equal to half of what is required for a normal agent (IMC No. 1-2010) (Note we have not located information on the normal fee) | Capitalization requirements are equal to half of what is required for a normal broker (IMC No. 1-2010) Normal broker capitalization requirement is P20,000,000 (2008 List of Requirements for Broker License) |
| Examination and training | Not required to take the regular qualifying examination. Must complete a 3-day course provided by competent resource speakers and pass a test covering basic concepts, and the president of the insurance company and the trainer must submit a list to the Insurance Commission of those who passed (IMC No. 6-2011) | Applicants must pass an examination provided by the Insurance Commissioner (Sec. 303) and must satisfactorily show the Insurance Commissioner that he has been trained in the kind of insurance contemplated in the license applied for. The examination may be waived if it is shown to the satisfaction of the Commissioner that the applicant has undergone extensive education and/or training in insurance (Sec. 304). |
| Fee | Not less than P25 (Sec. 417) No fee specified in application. | P10,000 per soliciting official (Application) |
| Articles of incorporation | Microfinance institutions' articles of incorporation should reflect as the primary or secondary purpose the purpose to act as an insurance agent (institutions may be granted a license without this amendment to the articles of incorporation, but renewal of the license in 2012 will be conditioned on completing it) (IMC No. 6-2011) | [IMC No. 1-2010 contemplates the existence of microinsurance brokers, but the Insurance Commission does not appear to have issued a circular memorandum providing detailed requirements for microinsurance brokers (although one appears to be forthcoming: http://phildevfinance.posterous.com/rural-bankers-train-in-microinsurance)] |
| Special requirement for microfinance institutions | May apply to be a microinsurance agent provided that a soliciting agent is identified by the institution and the institution sells microinsurance products only to its microfinance clients. | [IMC No. 1-2010 contemplates the existence of microinsurance brokers, but the Insurance Commission does not appear to have issued a circular memorandum providing detailed requirements for microinsurance brokers (although one appears to be forthcoming: http://phildevfinance.posterous.com/rural-bankers-train-in-microinsurance)] |
| Maintaining a License | | |
| Renewal of license | Must be renewed annually before June 30 (Sec. 299) Renewal form (Ordinary Agents) must include: | Must be renewed annually before June 30 (Sec. 299) Renewal form must include: |

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|--------------------------------|--|---|
| | <p>a. Application for renewal of license b. Certification of P3,600.00 gross commission earned c. License fee: P250.00 for each person/company/soliciting official d. Documentary stamp (P15.00)</p> <p>(2008 Requirements for Renewal of Licenses)</p> | <p>a. Application for renewal of license b. Original certificate of authority (license) c. Two renewed Errors and Omission Policies (100% of income; P1 million to P10 million) d. Renewed surety bond (P500,000.00) e. Income Tax Return (ITR) of the company f. Audited financial statement g. ITR of soliciting official h. Value Added Tax (VAT) receipts or percentage tax i. Updated list of officers and directors j. Updated company's capital structure (stockholders' name, nationality, number of shares and amount paid) k. License fee: P5,000 per soliciting official l. Documentary stamp (P15.00)</p> <p>(2008 Requirements for Renewal of Licenses)</p> |
| Signage | A microfinance institution licensed as a microinsurance agent shall display on its premises a supplementary signage saying "A Licensed Microinsurance Agent" which can be mounted on a big sticker or plate or signboard (IMC No. 6-2011) | [IMC No. 1-2010 contemplates the existence of microinsurance brokers, but the Insurance Commission does not appear to have issued a circular memorandum providing detailed requirements for microinsurance brokers (although one appears to be forthcoming: http://phildevfinance.posterous.com/rural-bankers-train-in-microinsurance)] |
| Suspension or revocation | A license may be refused, suspended or revoked for any of the reasons set forth in Sec. 305 | |
| BSP Requirements | | |
| Applicability | BSP Circular 2010-683 applies specifically to rural banks and coops assumes that they can be agents or brokers (it describes the requirements for marketing and selling microinsurance products, one of which is a license to act as a broker or agent) | |
| Documentation | Must submit documents and certifications required by BSP Circular 2010-683, including license from the Insurance Commission to act as an agent or broker, before marketing or selling microinsurance products | |
| Distinguish from bank products | Must ensure that microinsurance products are clearly distinguishable from bank products (all materials should prominently state the name of the issuing insurance company and a clause stating that the insurance products of (name of issuing insurance company) are not insured by the Philippine Deposit Insurance Corporation and are not guaranteed by (name of bank) (BSP Circular 2010-683) | |

SOURCES

Insurance Code: <http://www.insurance.gov.ph/htm/pd612.htm>

Application for Insurance Agent's License:
http://www.insurance.gov.ph/htm/..%5C_@dmin%5Cupload%5Cservices%5CAppln_InsuranceAgent.pdf

Application for Insurance Broker's License:
http://www.insurance.gov.ph/htm/..%5C_@dmin%5Cupload%5Cservices%5CAppln_InsuranceBroker.pdf

Application for Renewal of License as an Insurance Agent:
http://www.insurance.gov.ph/htm/..%5C_@dmin%5Cupload%5Cservices%5CRenewal_%20InsuranceAgent.pdf

Requirements for Renewal of Licenses:
http://www.insurance.gov.ph/_@dmin/upload/services/REQUIREMENTS%20FOR%20RENEWAL.pdf

List of Requirements for Issuance of License to Act as an Insurance Broker / Reinsurance Broker:
http://www.insurance.gov.ph/_@dmin/upload/services/List%20of%20Reqts%20for%20Issurance%20of%20Lic%20to%20act%20as%20Ins%20and%20Reins%20Broker.pdf

Insurance Broker's Statement of Business Operations:
http://www.insurance.gov.ph/_@dmin/upload/services/11_BROKERFORM_1.pdf

Insurance Memorandum Circular No. 1-2010: Regulations for the Provision of Microinsurance Products and Services: http://www.insurance.gov.ph/_@dmin/upload/reports/IMC%201-2010.pdf

Insurance Memorandum Circular No. 6-2011: Guidelines for the Approval of Training Programs and Licensing of Microinsurance Agents:
http://www.insurance.gov.ph/htm/..%5C_@dmin%5Cupload%5Creports%5CCCL%2006%20-%202011.pdf

BSP Circular 2010-683: Marketing, Sale, and Servicing of Microinsurance Products:
<http://www.bsp.gov.ph/regulations/regulations.asp?id=2513>

BSP Memorandum No. M-2011-015: Reminder on the Proper Offering of Microinsurance Services:
<http://www.bsp.gov.ph/regulations/regulations.asp?type=3&id=2700>