

PHILIPPINE INSURTECH SANDBOX

*DIGITALISATION AND GROWTH IN
THE PHILIPPINE INSURANCE SECTOR*



I. The ECCP Special Committee on Open Finance and Financial Inclusion

Financial inclusion has become a policy objective of the Philippine government to promote inclusive economic growth and poverty reduction. According to the Bangko Sentral ng Pilipinas, the Philippine government aims to onboard at least 70% of Filipino adults to the Philippine financial system.¹

To achieve this, approaches that connect policymakers, industry players, and consumers should be strengthened. This was likewise recognized by the Department of Finance, which stated that a strong government-private sector partnership is key to achieving the government's aim to accelerate financial inclusion.²

While there remains gaps in creating a wholly inclusive ecosystem that connects every Filipino to formal financial institutions, the European Chamber of Commerce of the Philippines (ECCP) also acknowledges that there is a significant opportunity to meet this goal through collaboration among stakeholders.

For this reason, the ECCP established its Special Committee on Open Finance and Financial Inclusion, which is envisioned to serve as a platform for stakeholders to discuss relevant issues and formulate actionable solutions to shape the current policy environment that will foster broader and wider financial inclusion among the populace through technology. Furthermore, the ECCP believes that the Committee can play a role in shaping dialogue in this pressing issue as a driver of business activity, poverty reduction, economic growth and competitiveness.

II. Methodology

The ECCP Insurance Whitepaper features issues and recommendations on the Philippine insurance sector, formed after discussions with its Special Committee on Open Finance and Financial Inclusion, and dialogues with representatives from the Philippine Government, and other stakeholders. The ECCP and its Special Committee on Open Finance and Financial Inclusion have also taken into great consideration the information gathered from organizing its event on "InsurTech Sandbox: Utilizing Optimization, Innovation, and Growth" last 25 November 2021.

III. The Philippine Insurance Sector

In 2020, the Philippines ranked 8th worldwide and 2nd in Asia³ in terms of financial inclusion promotion.⁴ The Economist Intelligence Unit recognized the government's response to promote digital channels as among the considerable improvements in the region in terms of building a financially inclusive environment.

At the same time, the insurance sector is poised to record a sizeable growth in 2021, according to

¹ Bangko Sentral ng Pilipinas. (2020). *The BSP Digital Payments Transformation Roadmap 2020-2023*. Retrieved from https://www.bsp.gov.ph/Pages/ABOUT%20THE%20BANK/Events/By%20Year/2021/BSP-UP%20Professorial%20Chair%20Lecture%20Series/BSP_2c_iraq_discussion.pdf?ID=2314.

² Department of Finance. (2021). *Dominguez: Strong government-private sector partnership to help achieve PRRD's financial inclusion goal*. Retrieved from <https://www.dof.gov.ph/dominguez-strong-government-private-sector-partnership-to-help-achieve-prrds-financial-inclusion-goal/>.

³ Out of 55 economies

⁴ The Economist Intelligence Unit. (2020). *Global Microscope 2020*. Retrieved from https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2020/11/EIU_Microscope_2020_161120.pdf.

Insurance Commissioner Dennis Funa. As of the third quarter of 2021, the industry's income increased by 31.04% year-on-year, while premium income expanded by 28.71%.⁵ Additionally, rises in investments and assets by 14.02% and 12.5% have also been registered by the Commission. At a global scale, it is projected that the growth in the insurance market is at 6.3% in 2021, and will be at 9% in 2022 – a considerable leap from the 3.6% increase in 2020, and 3.3% growth average from 2010 to 2019.⁶

Meanwhile, in terms of digital transformation, the Insurance Commission noted that technological innovations have long been a part of the insurance sector environment. These include the facilitation of transactions, provision of customer portals, as well as electronic billing services, among others, that started as early as 2014.

Nonetheless, with the quarantine rules in place as a response measure to the COVID-10 pandemic, the insurance industry had to adapt to continuously be able to connect insurance providers and clients. In the first year of the pandemic, a survey showed that the majority or 85% of insurance companies worldwide are likewise working towards digitalising their operations, and 79% are creating new digital business models and services.⁷ Key players regard digitalisation as a key factor in the continued and foreseen growth of the insurance sector.

As a response to the trends towards digital transformation, the Insurance Commission introduced a number of Circular Letters that provide guidelines and implement digital strategies in conducting insurance processes and services. Among which include:

- Circular Letter No. 2014-47 which provides guidelines on electronic commerce of insurance products⁸
- Circular Letter No. 2018-07 stipulates amendment to item 7.18 of Insurance Commission Circular Letter No. 2014-47 on the use of mobile application for the distribution of insurance products⁹
- Circular Letter No. 2018-51 which provides guidelines defining an online insurance aggregator and providing for the licensing and regulation¹⁰
- Circular Letter No. 2020-7054 which issues guidelines on the use of digital payments in the conduct of insurance transactions. An amendment to a number of provisions under this issuance were later introduced through Circular Letter No. 2020-88.¹¹
- Circular Letter No. 2020-10957 which stipulates the guidelines on the institutionalisation of the remote selling initiatives for insurance products.¹²

In addition to these, insurers have innovated to bridge the access and information gap with the public. The online market was maximised to allow insurance companies to offer and sell their policies through e-commerce, company websites, or mobile applications.

⁵ Nicolas, B. (2022). *Exclusive: 2021 a year of growth for insurance industry*. Retrieved from <https://businessmirror.com.ph/2022/01/05/exclusive-2021-a-year-of-growth-for-insurance-industry/>.

⁶ Deloitte Insights. (2022). *2022 insurance industry outlook*. Retrieved from https://www2.deloitte.com/content/dam/insights/articles/US164650_CFS-Insurance-industry-outlook/DI_Insurance-industry-outlook.pdf.

⁷ KPMG. (2020). *The COVID-19 catalyst: Insurers race to digitize*. Retrieved from <https://home.kpmg/xx/en/home/insights/2020/11/the-covid-19-catalyst-insurers-race-to-digitize.html>.

⁸ Insurance Commission. (November 2014). *CL No. 2014-47*. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2017/02/CL2014_47.pdf

⁹ Insurance Commission. (January 2018). *CL No. 2018-07*. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2018/01/CL2018_07.pdf.

¹⁰ Insurance Commission. (October 2018). *CL No. 2018-51*. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2018/10/CL2018_51.pdf.

¹¹ Insurance Commission. (August 2020). *CL No. 2020-88*. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2020/08/CL2020_88.pdf.

¹² Insurance Commission. (November 2020). *CL No. 2020-109*. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2020/11/CL2020_109.pdf.

With the strategies that have sparked the technological era of the insurance sector, there came the development of insurance technology, a secondary insurance industry or an insurance sub-sector.¹³ Insurance technology, or insurtech, is considered to continuously scale up the momentum in the insurance sector. According to Willis Towers Watson, global insurtech investments reached a new high of USD 2.55 billion in the first quarter of 2021, recording a 180% growth from the first quarter of 2020.¹⁴ Further to this, Asia Pacific is considered to be among the most diverse markets for insurers, as well as an emerging market for the insurtech sector.¹⁵

The response of the Philippine insurance sector to the digitalisation trend has positioned the Insurance Commission to further open opportunities for market players. Given this, the Commission issued Circular Letter No. 2020-73, which adopts a regulatory sandbox framework for insurance technology innovations,¹⁶ as well as Circular Letter No. 2021-1158, providing the same for financial technology innovations for health maintenance organizations and pre-need companies.¹⁷

The Insurance Commission regards regulatory sandbox as a “framework that allows tech startups and other innovators such as insurance companies to conduct live experiments in a controlled environment and designed to incubate innovation in a relaxed but safeguarded environment.” The Philippine insurtech sector is seen to gain momentum in its direction and through its policies and strategies, the Insurance Commission is aimed at maximising the role of technology in providing benefits to the consumers.¹⁸

IV. Key Messages and Recommendations for the Philippine Insurance Sector

- **The insurance sector continues to be a key area in promoting financial inclusion and wellness, as well as economic development.**

Financial inclusion has been identified as an enabler of eight¹⁹ out of the total seventeen 2030 Sustainable Development Goals.²⁰ Insurance, as a sub-sector and an element in the financial services sector, plays a critical role in promoting and achieving the financial awareness, inclusion, and wellness agenda.

However, while a concept and sector that has been present for years, insurance is yet to be maximised by the majority of the Philippine population. Insurance penetration in the Philippines is said to be at

¹³ Atty. Funa, D. (2021). Keynote speech [InsurTech Sandbox: Utilizing Optimization, Innovation, and Growth]

¹⁴ International Cooperative and Mutual Insurance Federation. (2021). *Willis Re: Global InsurTech investment reaches all-time high of USD 2.55 billion in Q1 2021*. Retrieved from https://www.icmf.org/news_story/willis-re-global-insurtech-investment-reaches-all-time-high-of-usd-2-55-billion-in-q1-2021/.

¹⁵ Horton International. (2021). *How InsurTech is Shaping The APAC Insurance Market*. Retrieved from <https://www.hortoninternational.com/news/how-insurtech-is-shaping-the-apac-insurance-market>.

¹⁶ Insurance Commission. (2020). *Circular Letter No. 2020-73*. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2020/06/CL2020_73.pdf.

¹⁷ IC. (February 2020). *CL No. 2021-11*. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2021/02/CL_2021_11.pdf.

¹⁸ Atty. Funa, D. (2021). Keynote speech [InsurTech Sandbox: Utilizing Optimization, Innovation, and Growth]

¹⁹ SDG1, on eradicating poverty; SDG 2 on ending hunger, achieving food security and promoting sustainable agriculture; SDG 3 on profiting health and well-being; SDG 5 on achieving gender equality and economic empowerment of women; SDG 8 on promoting economic growth and jobs; SDG 9 on supporting industry, innovation, and infrastructure; and SDG 10 on reducing inequality; SDG 17 on greater savings mobilization for investment and consumption that can spur growth.

²⁰ UN Capital Development Fund (UNCDF). (n.d.). *Financial Inclusion and the SDGs*. Retrieved from <https://www.uncdf.org/financial-inclusion-and-the-sdgs>.

only 1.58% in 2020 and 2.05% as of 2021,²¹ making the country lag behind its Asian peers such as Singapore, Malaysia, and Vietnam, which recorded a 5.9%, 5.4%, and 3.6% penetration in 2020.²²

Understanding the value-adding implications of insurance and reaching more customers to gain access to insurance products are key to advance financial inclusion and wellness, and inclusive economic development.

Particularly, insurance allows customers to mitigate financial risks in the face of interruptions, emergencies, and other unforeseen events for individuals, businesses, or properties and assets. In addition to this, on a macro level, insurance contributes to the economy by providing security to its customers, thus promoting societal resilience as well as continuity of economic activities even in the midst of unwanted circumstances. Insurance also plays a part in generating capital formation through premiums, as well as employment for the populace – both of which, important in promoting sustainable growth for economies.

A number of barriers to financial inclusion in insurance have been identified, both at the demand and supply side. These include low levels of income and financial education, as well as limited distribution mechanisms, product designs, and unsuitable business models, among others.²³ However, over time, innovations have constructed approaches that significantly support in making insurance more accessible to the public. It is highly encouraged that insurance stakeholders maximize these mechanisms to reap the multi-faceted benefits of a strong insurance sector. Among these approaches include maximising channels to raise awareness on the importance and benefits of insurance, pursuing innovations and adapting to the market trends and needs, as well as establishing a strong regulatory framework that supports the growth of the industry.

- **Technology plays a central role in bridging the gap in access to financial products and services.**

The immense growth in technological innovations and strategies has paved the way for market players to easily reach their potential and current customers, and for customers to gain access to information and platforms that support their daily needs and activities.

The proliferation of digital transactions as well as the increasing capacity of the public to access mobile devices and the internet go hand in hand in terms of reaching and encouraging the market to acquire insurance products. With digitalisation, more and more individuals may be reached by insurance services that will alleviate their way of life, as well as help attain financial security.

On the other hand, the use of technology allows insurance providers to understand the needs of the public, which results in the development of innovative products and services. Navigating the virtual value chain reduces the need for face-to-face transitions, which helps cut transaction costs, and eventually translates to boosting affordability, awareness, and appeal of insurance to customers.

²¹Insurance Commission. (2021). *Insurance Industry Performance - Life, Non-Life, and MBAs*. Retrieved from <https://www.insurance.gov.ph/wp-content/uploads/2021/11/Annex-A-02-2021-Insurance-Industry-Performance-Report-v1.pdf>

²² Singapore Business Review. (2021). *Singapore has major chunk of total insurance premiums in SEA for 2020*. Retrieved from <https://sbr.com.sg/financial-services/news/chart-day-singapore-has-major-chunk-total-insurance-premiums-in-sea-2020>.

²³MAPFRE Economics. (2020). *Financial inclusion in insurance*. Retrieved from <https://www.mapfre.com/media/economic-research/2020/mapfre-economics-inclusion-financiera-11-06-2020-ENU.pdf>.

Ultimately, maximizing the use of technology supports the sustainability of business models while attending to the varying needs of the public across borders and from different segments.

Relative to this and particularly in line with the varying levels of financial capacities of individuals, microinsurance²⁴ proves to be a strong mechanism to approach the market with tailor-fit and cost-efficient services for emerging customers. The Insurance Commission stated that mobile phone-based insurance or mobile insurance has become an emerging distribution channel for micro insurance.²⁵ In the first half of 2021, the Commission reported a 4.49% increase in the number of insured and 34.1% growth in premium production from the same period in 2020.²⁶

The industry is well-positioned to adopt technology as a central element in their conduct of business, further fostering the insurtech sector. Nonetheless, with the evolving trends and demands of the market, it is essential that insurance providers are able to customize their approaches and put in place new distributional models.

InsurTech Best Practices and Success Stories

Pru Life UK in the Philippines. Through Pru Life UK's Pulse initiative, which is powered by AI technology, both customers and non-customers across the Philippines are provided with tools that are so relevant to them, not only in terms of promoting more financial literacy, but also health and wellness literacy. The Pulse application has exceeded over 6 million downloads as of November 2021, and according to Google latest data year 2021, the first 10 months of the year, the application was rated number one lifestyle and health based on user downloads.¹

American International Group. AIG has had various insurance initiatives in its operations in China, Malaysia and Korea. In China, it has partnered with a gymnasium to offer bite-sized insurance products to its members. Meanwhile AIG's work with Shopee Malaysia involved providing insurance for the purchase of consumable products, which includes coverage for treatments of infectious diseases, as well as restorative surgery. Finally, AIG and Korean company, Kakao, worked in making use of the social media communication platform (KakaoTalk) to promote insurance through KakaoTalk Gift's inclusion of insurance plans in the roster of gift products that users can send to each other.²

UBX. Reintroduced the concept of embedded insurance, which allows insurance companies to reach out to a new set of customers, to the digitally native customers. In approaching the delivery of insurance products, UBX underscores the crucial role of seamless customer return. More specifically, in its Thailand and Indonesia markets, UBX provides protection for customers of e-commerce shops, while Singapore and Malaysia operations bundle value added services, i.e. telemedicine, to consumers. Finally, its initiatives on covering small and medium enterprises is aimed at advancing customer education and insurance coverage.³

¹ Wong, E.T., (November 2021). Speech [InsurTech Sandbox: Utilizing Optimization, Innovation, and Growth].

² Tng, G., (November 2021). Speech [InsurTech Sandbox: Utilizing Optimization, Innovation, and Growth].

³ Cruz, C., (November 2021). Speech [InsurTech Sandbox: Utilizing Optimization, Innovation, and Growth].

²⁴ 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."

²⁵ Atty. Funa, D. (2021). Keynote speech [InsurTech Sandbox: Utilizing Optimization, Innovation, and Growth]

²⁶ Insurance Commission. (2021). *Microinsurance industry quarterly statistical report as of the quarter ending on 30 June 2021*. Retrieved from <https://micorner.insurance.gov.ph/microinsurance/wp-content/uploads/2021/11/2021-2nd-Quarter-Statistics.pdf>.

- **Regulatory sandbox provides opportunities for sustainable growth, as well as offers safeguard to the insurance industry.**

While innovation is a key component in meeting the transforming market needs, it cannot be left unsaid that developing and introducing new products for the market entails numerous risks and cost factors for businesses.

It is for this reason that a regulatory sandbox is a suitable environment for insurtech players. According to the Insurance Commission, the sandbox approach provides a mechanism for insurtech companies to test new business models, and at the same time, allow regulators to supervise and control the risks that go along with the innovation in a 'limited but dynamic environment'.²⁷

This then boosts research and development, augments the industry players' confidence to create new products, and creates a perception of how the market will react to insurance innovations. Moreover, as an insurtech sandbox encourages increased activities in the sector, this facilitates the entry of more players in the market, thereby strengthening competition and growing the inventory of quality insurance products and services available to the public.

Similarly, a sandbox offers value to regulators as the engagement with insurance innovators helps create a deeper comprehension of the insurance sector, as well as establishes a systematic approach for strengthening interaction with the industry. In the end, stimulating sustainable market development will greatly contribute to economic growth and development.

Since the introduction of insurtech sandbox in the Philippines in 2020, the Insurance Commission has received two applications. To reap the benefits of such opportunity in the Philippine insurance sector, insurers are highly encouraged to participate in the insurtech regulatory sandbox. Preliminary and clarificatory inquiries, as well as exploratory meetings are accommodated by the Commission, to help companies test the temperature prior to submitting formal applications.²⁸

- **Maintaining an open dialogue and consultative relationship between the industry and government decision makers is an important factor advancing regulatory policies.**

As what has been seen from the sector developments in the past years, the Philippines is well-positioned to further develop its insurance sector due to the strong support of the government in terms of regulations and policy mechanisms. On this note, it is crucial that continuous exchange between the government, private sector, and other stakeholders take place in the form of public dialogues, consultative meetings, and policy documents among others.

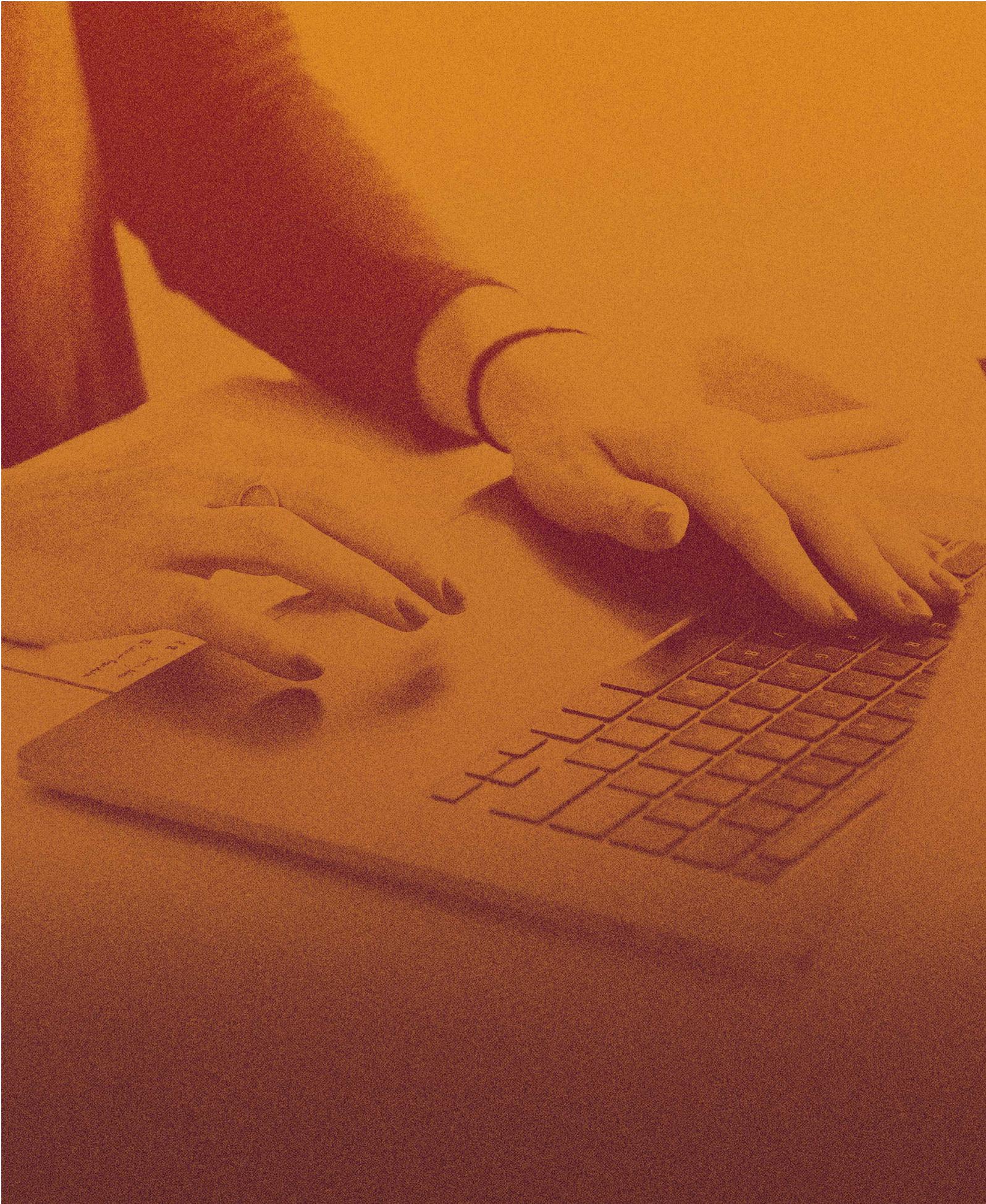
The Insurance Commission stated that it "is and has always been in open dialogue and discussions for purposes of collaborating on matters which will promote the welfare of the industries that we regulate."²⁹

Meanwhile, industry players share the same enthusiasm to engage with the Commission, other relevant government bodies, as well as experts and customers, to promote knowledge and technology transfer, and better understand the insurance sector in the Philippines. Insurance providers can also offer policy

²⁷ Atty. Funa, D. (2021). Keynote speech [InsurTech Sandbox: Utilizing Optimization, Innovation, and Growth]

²⁸ Ibid.

²⁹ Ibid.



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