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**PRU LIFE U.K.**



# **Driving Broader Insurance Access through InsurTech**

A policy paper by Romulo

Commissioned by Pru Life UK

NOVEMBER 2022

# Foreword

Pru Life UK is proud to commission one of the country's top law firms Romulo for the publication of this independent policy paper entitled "Driving Broader Insurance Access through InsurTech."

Technology has indeed disrupted the Philippine insurance industry in many ways. It has transformed how insurance products are now made accessible to customers. It has also changed most aspects of insurance operations, from how our agents service and engage with their customers, to how we insurers manage the life cycle of an insurance policy.

The COVID-19 pandemic has particularly accelerated the industry's digital transformation. With a proactive regulatory update, remote selling of insurance products was made possible amid mobility restrictions. It has since become institutionalized with the industry and the customers now adapting very well to the changes.



In Pru Life UK, insurtech allows us to bless many more Filipinos with our health, protection, and wealth products, helping address our customers' evolving needs. With insurtech, we introduced our first-of-its-kind AI-powered health and wealth app called Pulse, allowing our customers and subscribers to manage their health and finances anytime and anywhere. We are also making our products more accessible through digital platforms such as Shopee and GCash.

Insurtech also facilitates last-mile delivery of products and services, helping broaden insurance access, especially to the country's underserved and unserved communities. This is aligned with our mission of helping more Filipino families get the most out of life by making health and financial security accessible to all.

However, we cannot ignore that the recent developments in insurtech have pushed the boundaries of the regulatory framework for the use of technology in the online selling of insurance products. With technology and innovation set to continue transforming the insurance industry, it is time to take stock of the recent insurtech developments and ongoing initiatives and assess how these all fit into the present regulatory framework.

This policy paper is a relevant reference material that can help the government and the industry with the ongoing discussion on insurtech. It can also serve as a guide in updating the regulatory framework for insurtech while ensuring consumer protection in all cases.

**Eng Teng Wong**

Pru Life UK President & CEO

## Executive summary

The Organisation for Economic Co-operation and Development uses the term “Insurtech” to describe the “new technologies with the potential to bring innovation to the insurance sector and impact the regulatory practices of insurance markets”. In a highly fragmented country such as the Philippines, the role of Insurtech is most relevant in terms of broadening insurance access of Filipinos.

Online shopping platforms, including electronic wallets providing e-commerce platforms, constitute an Insurtech because of their potential to improve insurance access while at the same time, causing a rethink in the regulatory framework for electronic commerce of insurance products.

The Insurance Commission of the Philippines has demonstrated its progressive view, in terms of opening up access to insurance, through its regulations allowing electronic commerce, remote selling, and digital payments; alternative distribution channels; and regulatory sandbox.

However, the full potential of online shopping platforms has up to now, not yet been maximized likely because online shopping platforms are not insurance-specific.

A survey of the existing regulations of the Insurance Commission, however, shows that an online shopping platform could be considered as one insurance intermediary which merely connects the insurer and the consumer. It provides basic, objective product information, but not customized advice and specific client servicing, to the consumer. It also serves a communication function. Nonetheless, it does not have to be regarded at the same level as insurance agents and brokers and other insurance-specific alternative distribution channels such as insurance aggregators, because of its rather passive role in the insurance procurement process.

In the case of passive insurance intermediaries such as online shopping platforms, the approval of the insurance application, as well as the statutory obligations regarding anti-money laundering and KYC, continues to rest solely on the insurer which has the duty to protect the insured and which shall be responsible to the regulator for compliance with laws and regulations. As InsurTech evolves the way of doing the insurance business, even insurers need to keep up.

## Framing online selling platforms in the insurance distribution context

In policy issuances and public announcements in the past several years, the Insurance Commission (the “IC”) has conveyed that it is adapting to societal and technological changes while fulfilling its objective of safeguarding the rights and interest of the insuring public and establishing a sound national insurance market.<sup>1</sup>

The IC is not alone in this regard. In the rest of the financial and related industries, regulatory developments continuously adapt to the evolving behaviors and preferences of the consuming public. These regulations recognize the increasing penetration of technology in the conduct of financial and related transactions.

For example, the *Bangko Sentral ng Pilipinas* (the “BSP”), which regulates and supervises banks and non-bank financial institutions, introduced the Open Finance Framework which refers to “consent-driven data portability, interoperability, and collaborative partnerships among financial institutions and third-party providers (TPPs).”<sup>2</sup>

In considering third-party providers in the equation, the Open Finance Framework acknowledges that banks, insurance companies, and other allied financial enterprises do not exist in a bubble. Financial institutions need to collaborate with each other, as well as with non-financial platforms, to make financial and allied products and services accessible and available to the broader population.

The IC issued regulations on electronic commerce of insurance products as early as in 2014. At the height of the COVID-19 pandemic, it permitted remote selling of insurance products. Nonetheless, there are still questions on whether some initiatives in distributing insurance products to the broader population are permissible under current regulations. As a result, as an industry practice, insurers tend to seek, and the IC tends to give, regulatory approvals for these new initiatives on a case-to-case basis and under a regulatory sandbox framework. For example, the IC issued Insurance Commission Ruling No. 2021-04 in August 2021 to affirm PRU Life UK’s sale of electronic vouchers in Shopee, Lazada, and other online selling platforms for the ultimate purchase by consumers of individual life insurance products. Consequently, there remains a degree of regulatory uncertainty in the use of insurance technologies by insurers.

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<sup>1</sup> Objectives, <https://www.insurance.gov.ph/about/> (last accessed 15 November 2022).

<sup>2</sup> Policy Statement, Page 1, Open Finance Framework, Circular No. 1122 Series of 2021.

Nonetheless, insurers see the potential of online selling platforms as a new mode of distributing insurance products. We view these online selling platforms as a new type of insurance intermediary. They are differentiated from insurance agents and online insurance aggregators, which are the traditional insurance intermediaries, by the passive role played by these insurance intermediaries in the perfection of an insurance contract. They do not give advice or after-sales servicing to the consumer.

Therefore, to aid the IC in its efforts to sustain global standards and best practices in regulation and supervision,<sup>3</sup> to address the challenge of applying current regulations to insurance technologies, and to ensure consumer protection in all cases, we seek to explain how the current regulatory framework for electronic commerce of insurance products allows for online selling platforms as insurance intermediaries.

## Current regulatory framework in the Philippines for Insurtech in the distribution of insurance

The IC's regulations affecting insurance technologies adequately demonstrate the IC's serious interest in making regulations current and relevant and its openness to new methods of selling insurance products with the use of information technology.

These are demonstrated in (1) the institutionalization of remote selling and digital payments; (2) the adoption of regulatory sandbox framework for insurance technology innovations; and (3) the recognition of alternative distribution channels in the sale of insurance products.

### Remote Selling and Digital Payments

As early as 2007, the Commission already recognized the concept of remote selling as a means of promoting and selling insurance products in its Circular Letter No. 15-2007 or the "Guidelines for the Implementation of Know-Your Customer and Customer Due Diligence Requirements."<sup>4</sup> These guidelines provided that insurance products may be sold through short message sending, direct marketing through mail, and publication by print, radio or television, there being no need to meet face-to-face with client, provided that the premium payment on the policy would not exceed the maximum amount of Php 50,000 annually, or a single maximum premium of Php 125,000.<sup>5</sup>

<sup>3</sup> Shared Core Values, Commitment, <https://www.insurance.gov.ph/about/> (last accessed 15 November 2022).

<sup>4</sup> Insurance Commission, Circular Letter No. 2007-15 (07 August 2007).

<sup>5</sup> *Id.*

Recently, in response to the prevalent use of remote communication technologies in reaching out to consumers at the time of the COVID-19 pandemic, the IC sought to improve the current regulations in place by “institutionalizing” remote selling in its Circular Letter No. 2020-109 or the “Guidelines on Institutionalization of “Remote Selling Initiatives” as a Permanent Mode of Selling Insurance Products.”<sup>6</sup> This issuance lifted the cap on the amount of premium that can be transacted through remote selling.

This Circular Letter also echoed the definition of the Securities and Exchange Commission that remote selling initiatives are authorized initiatives that aimed to sell their products through teleconferencing, videoconferencing, computer conferencing, audio conferencing, or any other remote communication technologies.<sup>7</sup> Thus, the sale of insurance products to Filipino consumers in the Philippines by insurers through Facebook Messenger could be considered a remote selling initiative.

Meanwhile, Circular Letter No. 2020-70 expressly allowed digital payments for insurance premiums. This Circular Letter was issued in recognition of the rise of technological developments in financial transactions and their contribution to facilitating premium payments and promoting consumers’ convenience.<sup>8</sup>

## Regulatory Sandbox for Insurance Technologies

In pursuit of its mandate to keep abreast with trends and developments on standards for effective regulation and supervision,<sup>9</sup> the IC issued Circular Letter No. 2020-73 which provided the guidelines on the adoption of a regulatory sandbox to develop technological innovations while ensuring the protection of the interests of the insuring public.<sup>10</sup>

The regulatory sandbox contemplated by this Circular Letter limited the experimentation, testing, and learning projects to “small-scale and live testing of technical innovations operating under special circumstances, allowances and/or other limited and time-bound supervision”.<sup>11</sup>

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<sup>6</sup> *Guidelines on the Institutionalization of “Remote Selling Initiatives” as a Permanent Mode of Selling Insurance Products, Insurance Commission Circular Letter No. 2020-109 (26 November 2020).*

<sup>7</sup> *Preamble, ¶ 6 of Circular Letter No. 2020-109 (26 November 2020).*

<sup>8</sup> *Whereas Clause, Recognition of Digital Payments as an Integral Part of Insurance Technology (InsurTech), Providing for its Framework, and Encouraging its Adoption in Insurance Transactions, Insurance Commission Circular Letter No. 2020-70 (11 June 2020).*

<sup>9</sup> *Shared Core Values, Responsibility, <https://www.insurance.gov.ph/about/> (last accessed 15 November 2022).*

<sup>10</sup> *Whereas Clause, Guidelines on the Adoption of a Regulatory Sandbox Framework for Insurance Technology (InsurTech) Innovations, Insurance Commission Circular Letter No. 2020-73, 14 June 2020.*

<sup>11</sup> *Id.*



To supplement the current framework governing regulatory sandbox, the IC subsequently issued Circular Letter No. 2021-64 to expand the coverage of the guidelines, making the same applicable to health maintenance organizations and pre-need industries and to the extent that the proposed innovative product, service, business model, and/or delivery mechanism did not fall under Circular Letter No. 2020-73.<sup>12</sup>

## Alternative Distribution Channels

It was Circular Letter No. 2014-47 or the “Guidelines on Electronic Commerce of Insurance Products”<sup>13</sup> that offered important insights regarding intermediation involving insurance technology. Firstly, it is clear that intermediaries may offer insurance products through their platforms, provided they do not use such platforms to approve or issue insurance products, as these are the functions of an insurer, not of an intermediary.<sup>14</sup> Intermediaries are not limited to insurance agents<sup>15</sup> (who act on behalf of insurance companies)<sup>16</sup> and insurance brokers (who act on behalf of the insured).<sup>17</sup> When read together with Circular Letter No. 2018-51 or the “Guidelines Defining an Online Insurance Aggregator and Providing for the Licensing and Regulation Thereof” which was issued later, in 2018,<sup>18</sup> it becomes clear that intermediaries also include alternative distribution channels such as insurance aggregators.<sup>19</sup>

Insurance aggregators, which are also called price comparison websites, are internet-based platforms that accumulate and provide insurance policy quotations from various insurance companies.<sup>20</sup>

## Regulatory approaches in other countries

A survey of the existing laws and regulations in neighboring jurisdictions reveals that other countries in Southeast Asia expressly allow the online distribution of insurance products and similarly have laws and rules regulating them:

<sup>12</sup> *Guidelines on the Adoption of a Regulatory Sandbox Framework for Innovations in the Insurance, Health Maintenance Organizations, and Pre-Need Industries, Insurance Commission Circular Letter No. 2021-64, (4 November 2021).*

<sup>13</sup> *Insurance Commission Circular Letter No. 2014-47 (21 November 2014).*

<sup>14</sup> *Section 7.17 of Circular Letter No. 2014-47 (21 November 2014).*

<sup>15</sup> *Section 7.8 and Section 7.9 of Circular Letter No. 2014-47 (21 November 2014) mention intermediaries and insurance agents in the alternative (insurance agent or intermediary), demonstrating that intermediaries are not limited only to insurance agents.*

<sup>16</sup> *Section 309 of R.A. No. 10607 (The Insurance Code).*

<sup>17</sup> *Section 310 of R.A. No. 10607 (The Insurance Code).*

<sup>18</sup> *Circular Letter No. 2018-51 (15 October 2018).*

<sup>19</sup> *Preamble, ¶ 4 of Circular Letter No. 2018-51 (15 October 2018).*

<sup>20</sup> *Section 2 of Circular Letter No. 2018-51 (15 October 2018).*

For example, in Indonesia, non-insurance-related entities, such as online shopping platforms, may put up an online distribution model, provided their role is limited to delivering or providing marketing kits or a summary of product information, as approved or provided by the insurer.<sup>21</sup> This is called a referral model although strictly speaking, there is no referral being undertaken where the platform merely acts as such platform where parties connect. An online platform may not explain the terms and benefits of the insurance products or assist in the underwriting process, premium payment or claims process.

Moreover, prior approval of the Indonesian Financial Services Authority is also required for the “distribution partnership”, however, the non-insurer entity need not obtain a separate license from the regulatory authority.<sup>22</sup>

In Vietnam, like in the Philippines, the law allows for the sale of insurance products through online distribution channels.<sup>23</sup> However, it also provides that insurance agents may only provide insurance products and services only if these fall within the scope of the said agent’s contract.<sup>24</sup>

Finally, in Singapore, online insurance distribution is actively promoted, but alongside consumer protection initiatives in the form of protection tools which insurers are required to make available to online customers. The consumer is linked to online guides and tools to ensure that the policy intended for purchase is suitable for his or her financial circumstances and needs before taking on any long-term financial commitment.<sup>26</sup>

In Singapore, the consumer is specifically encouraged to (a) calculate the amount of life insurance coverage needed; (b) check if the premium to be paid is affordable, based on their current income and expenditure; (c) compare the features and premiums of the insurance product compared to other types of insurance products; and (d) consider different types of insurance products that are available, and whether the intended policy is suitable for the purchaser’s financial circumstances and needs.<sup>27</sup>

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<sup>21</sup> Circular Letter No. 19 on Marketing of Insurance Products (2020).

<sup>22</sup> *Id.*

<sup>23</sup> No. 08/2022/QH15 (01 July 2022).

<sup>24</sup> *Id.*

<sup>25</sup> No. 11 of Guidelines on the Online Distribution of Life Policies with No Advice (31 March 2017).

<sup>26</sup> No. 11 and Annex “B” of Guidelines on the Online Distribution of Life Policies with No Advice (31 March 2017).

<sup>27</sup> Annex “B” of Guidelines on the Online Distribution of Life Policies with No Advice (31 March 2017).



## Synthesis: Online shopping platforms as channels for insurance distribution

Section 7.17 of Circular Letter No. 2014-47 provides the scope of the permissible activities of insurers and intermediaries in respect of electronic commerce:

*Section 7.17. Intermediaries who have a website for electronic commerce of insurance products are not allowed to approve policies or endorsements or issue such electronic documents through their website. This prohibition does not apply when the intermediary is provided access to the system which the insurer administratively owns and controls and the insurance company allows to extend its facilities to an intermediary.*

Based on this provision, intermediaries may not approve insurance applications because this is an exclusive function, and the defining characteristic, of an insurer.

Meanwhile, Sections 7.8 and 7.9 of Circular Letter No. 2014-47 imply that insurance agents and insurance brokers are not the only “intermediaries” recognized by the IC. Based on the use of the word “or”, the term “intermediaries” may cover actors in the insurance process other than the insurance agent which is the most common intermediary. This interpretation of Sections 7.8 and 7.9 is consistent with the recognition by the IC, in Circular Letter No. 2018-51, of online insurance aggregators as “alternative distribution channels”, also the first time that such label was used by the IC in its regulations.

*Section 7.8. Prior to or after submission of the electronic application, and where the insurer determines that by the level of complexity of certain products or as may be determined by the Commission, should require advice from intermediary, insurance provider shall refer the consumer to the **insurer’s insurance agent or intermediary** for servicing or availability of product advice.*

*Section 7.9. For variable life insurance products, the insurance providers shall refer the consumer to a **licensed agent or intermediary** for servicing and product advice prior to the execution or issuance of the variable life contract online.*

Therefore, current regulations could give rise to a regulatory framework that allows online shopping platforms, including electronic wallets that have served as e-commerce platforms, to act as an “intermediary” for the sale and distribution of insurance products, including investment-linked insurance products, under a three-tiered classification of intermediaries as follows:

1. Those that provide advice and client servicing – e.g., insurance agents and brokers
2. Those that provide advice but not client servicing (but require a degree of knowledge of insurance products) – e.g., online insurance aggregators
3. Those that merely provide a platform that connects the insurer and the consumer for online distribution of insurance products, and do not provide advice and / or client servicing - e.g., online shopping platforms, online marketplaces, and e-wallets, like in Indonesia

The above classification is based on the degree of the intermediary's knowledge of, or involvement in, the insurance process. The degree of regulation from the IC therefore corresponds to the activity or passivity of the intermediary. As such, intermediaries that provide advice and client servicing require a higher degree of regulation (and are subject to licensing) compared to platform enterprises that merely market and provide information about insurance products being made available by the insurer online.

As third-tier intermediaries, online shopping platforms and similar enterprises should be allowed to display insurance products in their respective platforms. This is for the purpose of marketing and product information / consumer education. If the consumer is interested, the platform should enable the consumer to reach the insurer so that the insurance application process may commence between the insurer and the consumer. This model will be essentially like the model permitted in Indonesia. Although the Indonesian model is described as a "referral model", online platforms act rather passively by only bringing together the consumer and the insurer and do not actually refer customers to insurers or insurance agents.

Nonetheless, at or towards the completion of the sale of the insurance product, the online platform could also continue to provide a channel for open communication between the insurer and the consumer, such as in the notification by the insurer of the acceptance of the consumer's insurance application. This is consistent with a platform function of the intermediary.

Like in Indonesia, the agreements between the online platforms and the insurers will be screened by the IC. However, the online platforms themselves, not being actively engaged in the insurance business, should not be required to register with, or obtain a license from, the IC.

To ensure utmost consumer protection, the insurer and online platform should agree to implement additional safeguards, known in Singapore as "protection tools", where the insurance products made available in the platform are complex products requiring a higher degree of consumer protection.

Finally, since the online platform is merely a passive intermediary, the statutory obligations, including the obligation to comply with anti-money laundering / counter-terrorism financing laws, e.g., know-your-customer / due diligence and reporting of covered and suspicious transactions, continue to rest on the insurer who will always be responsible to the insured and the regulator.

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## About Romulo Mabanta Buenaventura Sayoc & de los Angeles

Romulo Mabanta Buenaventura Sayoc & de los Angeles (“Romulo”) is one of the three largest and oldest full-service law firms in the Philippines, highly regarded for its practice in capital markets, project finance, mergers & acquisitions, and technology, media, and telecommunications. Through the years, Romulo has developed a robust practice in banking, insurance, and other financial allied services and counts both established multinationals and budding local startups in its client base. It has participated in regulatory initiatives that promote the use of information technology in this sector, and particularly in the areas of e-money, virtual assets, financial technology, and insurance technology.

Cynthia Roxas-del Castillo is a senior partner, and head of the capital markets practice, at Romulo. She was the first, and up to now, the only, female dean of the Ateneo de Manila Law School where she remains to be a professor in various subjects such as obligations and contracts and securities regulation.

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## About Pru Life UK

### A legacy of financial strength

Pru Life UK is the local subsidiary of Prudential plc, an Asia-led portfolio of businesses focused on structural growth markets. It has 19 million life customers in its Asia and Africa businesses and built on a tradition that adheres to the strictest and most prudent insurance standards. This same tradition applies to its operations all over the world, including the Philippines.

### A tradition of innovation

Pru Life UK is the country's pioneer and one of the top providers of investment-linked life insurance. We are dynamic, fast-growing, and innovative – bringing you the benefits of health protection and financial security in an ever-expanding line of life insurance products.