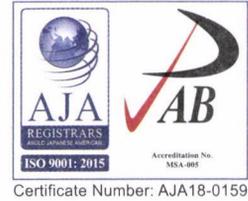




Republic of the Philippines
 Department of Finance
INSURANCE COMMISSION
 1071 United Nations Avenue
 Manila



Circular Letter (CL) No.:	2019 - 71
Date:	17 December 2019

CIRCULAR LETTER

TO : ALL LIFE INSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES

SUBJECT : PRODUCT OVERSIGHT AND GOVERNANCE

WHEREAS, Section 193 of the Insurance Code, as amended by R.A. 10607, states the primordial objective of maintaining the quality of management of insurance companies and the protection of policyholders and the general public;

WHEREAS, the Amended Insurance Code aims to strengthen the Philippine insurance industry through a law that is aligned with the developments in the insurance industry and practices that is at par with regional standards;

WHEREAS, effective requirements and monitoring of products which are offered to customers are fundamental to the market's development by ensuring that insurance products are fair, sustainable, provide value and build a positive reputation for the insurance industry;

WHEREAS, the International Association of Insurance Supervisors (IAIS), through the Insurance Core Principles (ICP), set out the standards for effective regulation and supervision of the insurance industry and envisions that insurers take into account the interests of different types of consumers when developing and distributing insurance products¹.

NOW THEREFORE, pursuant to the authority of the Insurance Commissioner under Section 437 of the Insurance Code, as amended by Republic Act No. 10607, the following guidelines on Product Oversight and Governance which is consistent with the ICP issued by IAIS, are hereby promulgated.

¹ Insurance Core Principle 19.5

GUIDELINES ON PRODUCT OVERSIGHT AND GOVERNANCE IN LIFE INSURANCE COMPANIES

1. Applicability

- 1.1. This Circular shall be applicable to all life insurance companies doing business in the Philippines.

2. Product Oversight and Governance

- 2.1. The Company shall set up a management-level committee, hereinafter referred to as Committee, which shall have oversight and governance over Company's insurance products.
- 2.2. It shall provide oversight of the Company's internal processes, organizational arrangements, functions and strategies aimed at designing, distributing and reviewing the insurance products throughout their lifecycle.
- 2.3. It shall set a clearly defined business strategy and risk appetite with Management Information to monitor compliance.
- 2.4. It shall bear responsibility for all phases of product development, as well as constant monitoring, review of the products and its distribution, putting emphasis on the performance of the products in terms of financial viability and fair treatment of customers.
- 2.5. It shall be responsible for establishing, implementing and reviewing the Company's product approval process and the Product Management Team (PMT) to handle this function and continuously verify internal compliance with the process and hold all those involved to account for their actions.
- 2.6. It shall ensure that members of the PMT involved in designing and manufacturing insurance products has the necessary skills, knowledge and expertise to properly understand the insurance products sold and the interests, objectives and characteristics of the customers belonging to the target market.
- 2.7. It shall ensure that all processes, policies, procedures are documented for audit purposes and made available to the competent authorities such as the Insurance Commission upon request.

3. Product Inventory

- 3.1. The Company shall submit on April 30 of each year, an annual inventory of all insurance products approved by the Insurance Commission as of 31 December of the prior year, including those products that the Company

has discontinued selling, following the format prescribed by the Insurance Commission in Annex A.

- 3.2. The annual inventory to be submitted by the Company for the initial year shall include all insurance products with in-force policies as of 31 December 2018. For subsequent submissions, only changes to the product inventory of the prior year shall be reported.
- 3.3. The product inventory report shall be certified correct by the head of the Committee.

4. Product Approval Process

- 4.1. A Company that develops any insurance product must maintain, operate and review a process for the approval of:
 - 4.1.1. each insurance product; and
 - 4.1.2. significant changes to an existing insurance product,in each case before it is marketed or distributed to customers.
- 4.2. The clearly documented product approval policies and procedures shall be set out in the Product Oversight and Governance Policy, which shall be made available to relevant staff.
- 4.3. The product approval process shall:
 - 4.3.1. ensure that the design of insurance products:
 - 4.3.1.1. takes into account the objectives, interests and characteristics of customers;
 - 4.3.1.2. does not adversely affect customers; and
 - 4.3.1.3. prevents or mitigates customer detriment;
 - 4.3.2. support a proper management of conflicts of interest.
- 4.4. The product approval process shall contain measures and procedures for designing, monitoring, reviewing and distributing insurance products, as well as corrective action for insurance products that are detrimental to customers. The measures and procedures shall be proportionate to the level of complexity and the risks related to the products as well as the nature, scale and complexity of the relevant business of the Company.
- 4.5. The PMT shall carry out the following duties and responsibilities:

- 4.5.1. To carry out and implement the product approval policies and procedures.
- 4.5.2. To ensure that all life insurance products, policy contracts, certificates, supplementary contracts, endorsements, and other contract forms have been reviewed, signed-off and endorsed prior to submission to the Insurance Commission for approval.
- 4.5.3. To ensure that all members of the team involved in the product approval process have signed-off before a product is launched.
- 4.5.4. To carry out due diligence and record and document all relevant actions taken by the PMT in relation to the product approval process for audit purposes and make these available to the competent authorities such as the Insurance Commission upon request.
- 4.5.5. To submit reports independently to the Product Oversight and Governance Committee and assist the committee in effective control over the risks posed, in particular, by insurance products being sold by the Company.
- 4.5.6. To conduct a review of the insurance products it offers or markets; and provide a recommendation to the Product Oversight and Governance Committee whether the product should be discontinued, modified, or can continue to be sold.
- 4.6. Companies designating a third party to design products on their behalf shall remain fully responsible for compliance with the product approval process and other requirements of this Circular.
- 4.7. The board-approved Product Oversight and Governance Policy of the Company shall be filed with the Insurance Commission, including any material amendments thereto.

5. Target Market

- 5.1. For each insurance product the product approval process must:
 - 5.1.1. specify an identified target market;
 - 5.1.2. ensure that all relevant risks to the identified target market are assessed;
 - 5.1.3. ensure that the intended distribution strategy is consistent with the identified target market; and
 - 5.1.4. require the Company to take reasonable steps to ensure that the insurance product is distributed to the identified target market.

- 5.2. The target market shall be identified at a sufficiently granular level, taking into account the characteristics, risk profile, complexity and nature of the insurance product.
- 5.3. The Company may also identify groups of customers for whose needs, characteristics and objectives the insurance product is generally not compatible.
- 5.4. The Company shall only design and market insurance products that are compatible with the needs, characteristics and objectives of the customers belonging to the target market. When assessing whether an insurance product is compatible with a target market, companies shall take into account the level of information available to the customers belonging to that target market and their financial literacy.
- 5.5. The level of granularity of the target market and the criteria used to define the target market and determine the appropriate distribution strategy should be relevant for the product and should make it possible to assess which customers fall within the target market. For simpler, more common products, the target market should be identified with less detail while for more complicated products or less common products, the target market should be identified with more detail taking into account the increased risk of consumer detriment associated with such products.

6. Product Testing

- 6.1. The Company shall test their insurance products appropriately, including scenario analyses where relevant, before bringing that product to the market or significantly adapting it, or in case the target market has significantly changed. That product testing shall assess whether the insurance product over its lifetime meets the identified needs, objectives and characteristics of the target market. The Company shall test their insurance products in a qualitative manner and, depending on the type and nature of the insurance product and the related risk of detriment to customers, quantitative manner.
- 6.2. The Company should include assessments of the performance and risk/reward profile of their insurance product where appropriate.
- 6.3. The Company shall not bring insurance products to the market if the results of the product testing show that the products do not meet the identified needs, objectives and characteristics of the target market.
- 6.4. The Company must consider the charging structure proposed for each insurance product, including examination of the following:

- 6.4.1. whether the costs and charges of the insurance product are compatible with the needs, objectives and characteristics of the target market;
- 6.4.2. where relevant, whether the charging structure of the insurance product is appropriately transparent for the target market, such as that it does not disguise charges or is too complex to understand; and
- 6.4.3. where relevant, whether the charges undermine the return expectations of the insurance product, such as where the costs or charges equal, exceed or remove almost all the expected tax advantages linked to a life policy.

7. Distribution Channels and Information Disclosure to Sellers

- 7.1. The Company shall carefully select distribution channels that are appropriate for the target market, thereby taking into account the particular characteristics of the relevant insurance products.
- 7.2. To ensure appropriate information for customers, life insurance companies should select sellers that have the necessary knowledge, expertise and competence to understand the features of an insurance product and the identified target market.
- 7.3. Life insurance companies must provide timely, clear and adequate information to the seller, such as the following:
 - 7.3.1. all appropriate information on the insurance product, including its main features and characteristics, their risks and costs, including implicit costs, the suggested distribution strategy, and any circumstances which might cause a conflict of interest to the detriment of the customer;
 - 7.3.2. all appropriate information on the product approval process; and
 - 7.3.3. the identified target market of the insurance product.
- 7.4. The information referred to in the previous paragraph shall enable the insurance sellers to:
 - 7.4.1. understand the insurance products;
 - 7.4.2. comprehend the identified target market for the insurance products;
 - 7.4.3. identify any customers for whom the insurance product is not compatible with their needs, characteristics and objectives; and

- 7.4.4. carry out distribution activities for the relevant insurance products in accordance with the best interests of their customers.

8. Monitoring and Review of Insurance Products

- 8.1. The Company shall conduct a regular review of the insurance products it offers or markets taking into account any event that could materially affect the potential risk to the identified target market. In doing so, the Company must assess at least the following:
 - 8.1.1. whether the insurance product remains consistent with the needs of the identified target market; and
 - 8.1.2. whether the intended distribution strategy remains appropriate.
- 8.2. The Company shall determine the appropriate intervals for the regular review of their insurance products, thereby taking into account the size, scale, contractual duration and complexity of those insurance products, their respective distribution channels, and any relevant external factors such as changes to the applicable legal rules, technological developments, or changes to the market situation.
- 8.3. If, during the lifetime of an insurance product, the Company identifies any circumstances related to the insurance product that may adversely affect the policyholders of that product, it shall promptly inform the Board of such circumstance and recommend to the Board an appropriate action to mitigate the situation and prevent further occurrences of the detrimental event. The Company shall, whenever necessary, inform all concerned stakeholders such as policyholders, agents, brokers, etc., of the remedial action taken.
- 8.4. The Company shall take appropriate steps to monitor that insurance agents and other intermediaries act in accordance with the objectives of the Company's product approval process. They shall in particular verify on a regular basis whether the insurance products are distributed on the identified target market. That monitoring obligation shall not extend to the general regulatory requirements with which agents and other intermediaries have to comply when carrying out insurance distribution activities for individual customers. The monitoring activities shall be reasonable, taking into consideration the characteristics and the legal framework of the respective distribution channels.
- 8.5. If the Company finds that the distribution of the insurance products is not in accordance with the objectives of established product approval process, the Company shall take appropriate remedial action.