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

Circular Letter No.:	**2021-64**
Date:	**4 November 2021**

CIRCULAR LETTER

TO : **ALL ENTITIES REGULATED BY THE INSURANCE COMMISSION**

SUBJECT : **GUIDELINES ON THE ADOPTION OF A REGULATORY SANDBOX FRAMEWORK FOR INNOVATIONS IN THE INSURANCE, HEALTH MAINTENANCE ORGANIZATIONS (HMO), AND PRE-NEED INDUSTRIES**

WHEREAS, innovations that offer new products and services is a key part of effective competition especially in the financial sector;

WHEREAS, innovative products, services, business models, and/or delivery mechanisms, as applied in the conduct of business of insurance, Health Maintenance Organizations (HMOs) and pre-need companies, can further be improved or enhanced without completely disregarding any existing and applicable laws, rules, or regulations;

WHEREAS, this Commission recognizes the immense benefit that can be derived from further developing such innovations through experimentation, testing, and learning, which can be achieved without compromising the protection of the interests of the insuring public;

NOW, THEREFORE, in view of the foregoing and in accordance with the statutory powers vested in the undersigned by Section 437 of the Insurance Code, as amended by Republic Act No. 10607, Section 4 of Executive Order No. 192, s. 2015, and Section 6 of Republic Act No. 9829, otherwise known as the "Pre-Need Code of the Philippines", the following *Guidelines on the Adoption of a Regulatory Sandbox Framework for Innovations in the Insurance, Health Maintenance Organizations (HMO), and Pre-Need Industries* are hereby adopted and promulgated, to wit:

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Section 1. Definition of Regulatory Sandbox. – For purposes of this Circular Letter, the term "*Regulatory Sandbox*" means a controlled environment with a system set up by a licensed insurance provider, Health Maintenance Organization (HMO), pre-need company, insurance or reinsurance broker, adjuster, mutual benefit association or such other Insurance Commission-regulated entity, as the case may be, in collaboration with another person, natural or juridical, licensed or not by this Commission, that allows a small scale and live testing of **innovative products, services, business models, and/or delivery mechanisms**, other than those contemplated under Circular Letter No. 2020-73[1] and Circular Letter No. 2021-11[2], operating under special circumstance/s, allowance/s, and/or other limited and time-bound supervision.

Section 2. Prior Approval Required. – No Regulatory Sandbox that involves the doing of insurance, HMO or pre-need business, or the performance of any act that will require licensing and/or regulation by this Commission shall be adopted and implemented unless approved by this Commission.

Section 3. Participation by Non-Regulated Entities. – In the case of persons, natural or juridical, who intend to participate in a Regulatory Sandbox but whose businesses are not regulated by this Commission and whose collaboration will require the performance of acts that will result in business or transactions that will require licensing, regulation or approval by this Commission, e.g., start-ups and financial service providers, they must first comply with existing regulations issued by this Commission, insofar as applicable, before submitting any application to participate in a Regulatory Sandbox.

Section 4. Experimentation Cycle. – A Regulatory Sandbox shall be operated in Experimentation Cycle/s that will be implemented one at a time. Each Experimentation Cycle must be evaluated and finalized before any subsequent Experimentation Cycle/s may be commenced.

Section 5. Duration of Experimental Cycle. – The Experimental Cycle, if approved by this Commission, shall last for a maximum period not exceeding one (1) year. The said Experimental Cycle can be extended for a period not exceeding six (6) months; *Provided*, that the Applicant shall submit a written justification, subject to the approval of this Commission.

Section 6. Documentary Requirements; Formal Proposal. – Any person/s intending to apply for participation in a Regulatory Sandbox shall submit a formal proposal and shall submit the following documents to this Commission's

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[1] Guidelines on the Adoption of A Regulatory Sandbox Framework for Insurance Technology (InsurTech) Innovations

[2] Guidelines on the Adoption of A Regulatory Sandbox Framework for Financial Technology (FinTech) Innovations for Health Maintenance Organizations (HMOs) and Pre-Need Companies

Regulation, Enforcement and Prosecution Division (REPD), whether in hard copy, flash drive or compact disc[3]:

a. Certified true copy of DTI or SEC registration documents, if applicable;

b. Certified true copy of the signed contract or agreement between the parties intending to develop any innovative product, service, business model, and/or delivery mechanism within this Framework, if applicable;

c. Certified true copy of signed agreement/s signifying the consent of the test subject/s;

d. The Applicant's by-laws and constitution, if applicable;

e. Outline of business model for the product, service, business model, and/or delivery mechanism which shall include, at least, the following:

    i. Definition and explanation of the proposed innovation with justifications of the idea to the market;

    ii. The potential benefits of the proposed product, service, business model, and/or delivery mechanism for consumers and financial markets;

    iii. The necessity of resorting to a Regulatory Sandbox test with its perceived outcomes and objectives;

    iv. A clear testing methodology, limitation of scale, and relevant controls;

    v. The potential and perceived risks resulting from the Regulatory Sandbox test;

    vi. The proposed safeguards and risk mitigation strategies for avoiding potential harm to consumers or the market participants and their likely effectiveness against cyberhacks, data breach, and similar other risks; and

[3] All submissions made by flash drive or compact disk must be in PDF format. Submissions by flash drive or compact disk must be accompanied by a cover letter, in duplicate, that will serve as the receiving copy.

vii. The phases of the Experimentation Cycle, if applicable, and the duration of time that will be needed.

f. A written projected plan and clear strategy for exit ("Exit Plan") from the Regulatory Sandbox, which shall include:

i. A clear methodology to scale-up the proposed innovation in order to access a larger market;

ii. Plan for the clients of the proposed innovation in case the same is ordered discontinued or in case the Applicant ceases its operations voluntarily or upon this Commission's orders, which shall include scenarios for transitioning and/or compensating said clients, among others; and

iii. The amount that will be specifically earmarked for the implementation of the proposed innovation that shall be intended as payment for any claims arising from said implementation or adoption thereof, which shall be unimpaired at all times.

Section 7. Application Screening Parameters. – In the screening of applications, the following parameters shall be considered based on the documents submitted:

a. Innovative idea/s;

b. Financial inclusion, indicative that the proposed product, service, business model, and/or delivery mechanism can promote or provide equal opportunity to access insurance/HMO/pre-need services and will increase financial literacy;

c. Consumer benefit and protection;

d. Readiness for testing indicative of the adequate resources to support the testing and clear methodology and control, among others; and

e. Soundness of the Exit Plan.

Section 8. Implementing Division. – The Regulation, Enforcement and Prosecution Division (REPD) shall receive any and all applications under this Circular Letter and determine whether or not the required documentation is complete and whether the applications exhibit the parameters outlined in Section 7 of this Circular Letter. The REPD may, upon evaluation, require additional

information or documents from the Applicants for clarificatory matters only, if needed. The REPD is likewise authorized to coordinate with other concerned divisions of this Commission relative to the evaluation of the application.

After determining that the required documentation of an application is complete and that the same exhibits said parameters outlined in Section 7 of this Circular Letter, the REPD shall submit its recommendation to the Insurance Commissioner for approval.

Section 9. Approval. – If the Insurance Commissioner is satisfied with the recommendations of the REPD that the required documentation is complete and that the same meets the parameters outlined in Section 7 of this Circular Letter, a letter of approval ("Approval") shall be issued to the successful Applicant. The successful Applicant will be allowed to operate and proceed with live testing or experiments within the period contained in Section 6(e)(vii), in relation to Section 5 of this Circular Letter.

Section 10. Mandatory Reporting. – The successful Applicants shall mandatorily submit a monthly written report to this Commission, through the REPD. The monthly report shall contain, among others: (1) proof of the progress or regress based on the parameters set out in Section 7 of this Circular Letter; (2) percentage of completion of or phase/s completed in the Experimentation Cycle; and (3) other concerns, if any, that the successful Applicants need to bring to the attention of this Commission. The Insurance Commission may also require the successful Applicants to submit additional documents, if needed, to clarify matters.

If any concern brought to the attention of this Commission requires the modification, improvement, or enhancement of the plans or experiments contained in the application, as accompanied by relevant proof, such modification, improvement, or enhancement may only be adopted and/or implemented by the Applicant upon request and subsequent approval of this Commission.

The period to file the monthly reports shall commence from the date of the receipt of the Approval by the successful Applicants.

Section 11. Penalties for Violation. – The Applicant's failure to comply with any of the provisions of this Circular Letter shall warrant the immediate denial of the application. In case an Approval has already been issued to the Applicant, the Approval shall be immediately revoked. This Commission may also revoke or suspend the Approval at any phase or stage of the Experimentation Cycle if it finds, during such phase or stage, that the proposed innovation does not progress or fails to meet any of the parameters mentioned in Section 7 of this Circular Letter.

Section 12. Completion. – At the end of the Experimentation Cycle, or if the successful Applicant achieves the results desired earlier than the end of the Experimentation Cycle, the successful Applicant shall submit a written Completion Report to the REPD. The Completion Report shall, at least, include the following, to wit:

a. The overall results and statistics of the testing;

b. An objective assessment of the potential impact of the innovation to be scaled out, which shall, at least, include:

   i. A comparison of results with the objectives defined during the inception of the experiment;

   ii. The scope of scaling out to a larger audience, in case of success;

   iii. How the Applicants will fully comply with relevant legal and regulatory requirements if the technological solution is scaled out;

c. Proof that the sum required per Section 6(f)(iii) of this Circular Letter had already been deposited and earmarked for the purpose. To ensure that the earmarked amount cannot be withdrawn for any purpose other than that for which the same was originally intended, the Applicant shall designate the Insurance Commissioner or his duly authorized representative/s or alternate/s as co-signatory/ies to the pertinent account/s.

Section 13. Information as Trade Secrets. – Any information in the custody of or within the knowledge of this Commission pertaining to the Applicants' participation in a Regulatory Sandbox, including its successful launching, shall be considered as trade secrets in accordance with applicable intellectual property laws of the Philippines. Accordingly, any and all requests or inquiries pertaining to the disclosure of any of the details of such participation shall be requested directly from the Applicants.

Section 14. Integration with Product Approval Policies. – Insurance/HMO/pre-need companies that intend to apply for a new product subject to this Commission's approval or amend matters in its previously approved product/s are still required to comply with the requirements set forth in other existing Circular Letters previously issued by this Commission. The filing of said application for new product/s or amendment of previously approved product/s may be done simultaneously or prior to the insurance/HMO/pre-need

company's application for participation in a Regulatory Sandbox. In the case of the latter, it shall be the duty of the insurance/HMO/pre-need company to inform this Commission in writing.

Section 15. Separability Clause. – If any provision of this Circular Letter shall be held unconstitutional or invalid, the other provisions not otherwise affected shall remain in full force and effect.

Section 16. Effectivity. – This Circular shall take effect immediately.

DENNIS B. FUNA
Insurance Commissioner