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SENATE

Senate Bill No. 2621

RECEIVED BY:



Introduced by Senator Cynthia A. Villar

AN ACT STRENGTHENING THE PHILIPPINE CROP INSURANCE CORPORATION (PCIC) BY INTRODUCING A MARKET-BASED REFORM ON AGRICULTURAL INSURANCE, AND FOR OTHER PURPOSE

EXPLANATORY NOTE

The WorldRiskIndex reported that in 2022, the Philippines, Indonesia, and India are the countries with the highest risks worldwide. The Philippines is highly vulnerable to bad weather and is branded as a natural disaster hotspot. In 2012, the Philippines was likewise ranked third most disaster risk country in the world by the United Nations University Institute of Environment and Human Security.

For our country's food security and general welfare, a farmer should be assured that he will recover his investment if he suffers crop and other agricultural project losses caused by natural calamities, pest and disease infestation, and other losses. In case of animal diseases that have the potential to spread and thereby cause extensive damage instead of just being localized like the African swine fever, if the government indemnifies farmers against losses associated with infection, they have a much greater incentive to report the disease, thereby allowing protective and loss-mitigating actions to be taken.

During the past administration, the Department of Finance led by Secretary Sonny Dominguez, asked the World Bank (WB) to make a study on the effectiveness of the Philippine Crop Insurance Corp. (PCIC). The WB presented their report to the PCIC Board on May 5, 2022, which recommended reforms to the charter of the state-run firm as its existing agricultural insurance framework neither provides adequate protection to farmers nor value for money to taxpayers.

The PCIC is "extremely exposed to catastrophe losses which are not reinsured," according to the WB's Disaster Risk Financing and Insurance Program (DRFIP).

The PCIC agricultural insurance has only reached one-third (1/3) of the country's farmers and is not well-targeted to ensure that taxpayers are getting value for their money.

The PCIC's premium rating, capital management, financial reporting and other aspects of its operations are not in line with international best practices. The product line of PCIC is likewise suitable for majority of Filipino farmers, especially for small subsistence holders and growers.

PCIC's paid claims do not adequately reflect losses and are often paid late. The country's insurance market has been structured in such a way that the PCIC enjoys a de facto monopoly in this field, which has discouraged the entry of other players.

The DRFIP of WB team has proposed several actions to overcome these challenges and strengthen its operations for the benefit of both farmers and taxpayers. These are –

1. Clarify policy objectives for agricultural insurance by identifying who to protect, based on whether it would lead to loss of consumption or loss of income and ability to repay loans;
2. Review government strategy and support, including subsidies;
3. Overhaul PCIC operations and capital management;
4. Review the products PCIC insurance products for subsistence and semi-commercial farmers and improving/targeting existing indemnity crop insurance for high-value crops, livestock and poultry farming as well as commercial farming; and
5. Reform the market structure by letting the private sector come in and gain access to premium subsidies, and considering alternative market structures such as a co-insurance pool.
6. The PCIC should be placed under the regular oversight and reporting of the Insurance Commission (IC).

In view of the foregoing, the passage of this bill is earnestly sought.


SEN. CYNTHIA A. VILLAR

NINETEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
Second Regular Session)



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AN ACT STRENGTHENING THE PHILIPPINE CROP INSURANCE CORPORATION (PCIC) BY INTRODUCING A MARKET-BASED REFORM ON AGRICULTURAL INSURANCE, AND FOR OTHER PURPOSE

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

SECTION 1. Short Title. – This Act shall be known as the “Revised Charter of the Philippine Crop Insurance Corporation”.

SEC. 2. Declaration of Policy. – It is hereby declared the policy of the State to provide support to agriculture through adequate financial, production, marketing, and other support services. Towards this end, the State shall:

- (a) Develop and support an adequate and sustainable agriculture risk transfer program, that is based on international best practices, actuarial valuation, and sound market-based principles, as a mechanism for managing the risks inherent in the agricultural sector.
- (b) Improve the cost-efficiency and effectiveness of government support to agriculture insurance;
- (c) Enhance risk management in the agriculture and fishery sector to encourage banks, financial institutions, and registered cooperatives/associations to extend loans to farmers and fisherfolk;
- (d) Encourage the participation of the private sector in extending agriculture insurance to members of the agriculture sector; and
- (e) Strengthen the organizational and operational capability and capacity of the Philippine Crop Insurance Corporation (PCIC), necessary to provide support to implement the government’s programs to improve agricultural insurance that would benefit especially the small hold farmers.

SEC. 3. *Attachment to the Department of Finance.* – The PCIC shall continue to be attached to the Department of Finance for policy and program coordination, and general supervision.

SEC. 4. *Revised Purposes of the Philippine Crop Insurance Corporation.* – The Philippine Crop Insurance Corporation, hereinafter known as the Corporation, is a government-owned corporation established pursuant to Presidential Decree No. 1467, with its principal place of business in Metro Manila, shall insure the crops of qualified farmers and fisherfolk against losses arising from fortuitous natural and climatic events or outbreak of pests and diseases.

The Corporation shall design and provide suitable disaster risk transfer solutions, such as, but not limited to, indemnity or indexed based instruments that provide coverage to crops, livestock, aquaculture and fishery products, agroforestry crops, forest plantations, and non-crop agricultural assets against losses arising from fortuitous natural and climatic events or outbreak of pests and diseases.

SEC. 5. *Powers.* – The Corporation shall exercise the following powers and functions:

- (a) To prescribe, repeal, and alter its own by-laws;
- (b) To adopt and use a corporate seal;
- (c) To sue and to be sued;
- (d) To have continuous succession until dissolved by law;
- (e) To determine its operating policies and to issue such rules and regulations as may be necessary to implement the agricultural insurance scheme;
- (f) To provide risk transfer solutions against losses and damages arising from fortuitous natural and climatic events or outbreak of pests and diseases for crops, livestock, fisheries, and aquaculture products;
- (g) To insure and reinsure in the Philippines, primarily with the GSIS, pursuant to RA 656 and related laws/rules/regulations/issuances, or other insurance/reinsurance companies domestic or foreign, all or any risks of the Corporation, provided that for foreign reinsurers that they have a resident agent duly certified by the Insurance Commission;
- (h) To undertake reinsurance or co-insurance agreements primarily with the GSIS pursuant to RA 656 and related laws/rules/regulations/issuances or with reputable private sector participants in the agricultural insurance market, which are accredited by the Insurance Commission, following a selection process that evaluates their track

record, capacity to underwrite agricultural risks, and performance, among others, subject to the approval of the Board;

(i) To purchase or otherwise acquire ownership and manage any and all parts of the business, property and liabilities of any person or company carrying on any business which the Corporation is authorized to carry on or possess;

(j) To acquire by purchase or otherwise acquire ownership of and/to invest in, hold, sell, or otherwise dispose of stocks or bonds or any interest in either, or any obligation or evidence of indebtedness of any corporation, domestic or foreign, or the bonds or other obligations or evidence of indebtedness, of any person firm or corporation; and as owner of such stocks, bonds or interest therein, or other obligations or evidence of indebtedness, to exercise the rights, powers and privileges of ownership, including the right to vote thereon or consent in respect thereto for any and all lawful purposes; [and]

(k) To establish branches whenever it may be expedient and necessary.

SEC. 6. *The Board of Directors*

6.1. The powers of the Corporation shall be vested in and exercised by a Board of Directors composed of seven (7) members, and made up of the following:

Chairperson : Secretary, Department of Finance

Vice-Chairperson: Secretary, Department of Agriculture

Members :

President, Philippine Crop Insurance Corporation

President, LandBank of the Philippines

President and General Manager, GSIS

Representative from the private insurance industry, to be nominated by the Secretary of Finance

Representative from the subsistence farmer's sector

The appointive directors, namely, the representative from the private insurance industry, and representative from the subsistence farmer's sector, shall be submitted to and appointed by the President of the Philippines.

6.2 The members of the Board shall have their respective duly authorized designated alternates who shall attend the meetings, and act as members of the Board in the absence or incapacity of the regular members;

6.3 The Board of Directors shall meet regularly at least once a month and as often as the exigencies of the Corporation's affairs demand. The presence of at least five (5) members shall constitute a quorum which shall be necessary for the transaction of any business. The Board may be convoked either by the Chairman or in his absence by the Vice Chairman. In the absence of the Chairperson, the Vice Chairperson shall preside over the meeting of the Board.

SEC.7. Powers and Functions of the Board of Directors. – The Board shall have the following powers and functions:

- (a) Implement the provisions and purpose of this Act;
- (b) Constitute board committees to oversee the management, operations and administration of the Corporation;
- (c) Determine the rate of premium, as well as the allocated sharing thereof of farmers, fisherfolk, lending institutions, the government, and other parties;
- (d) Formulate and adopt policies and plans, and promulgate rules and regulations for the management, operation and conduct of the affairs and business of the Corporation and, for this purpose, may limit or refuse insurance in any area or on any farmer because of the risk involved, except in cases of compulsory insurance;
- (e) To expand to other insurance lines and extending coverage to other areas of agriculture in order to address needs of the target sector and to do and perform acts and things and to exercise all the general powers conferred by law upon the Corporation as are incidental or conducive to the attainment of the objectives of the Corporation;
- (f) Enter into, make, and execute contracts as may be necessary, or incidental to the accomplishment of the purposes of the Corporation;
- (g) Establish, as necessary, partnership with the private sector to address the needs of the different market segments;
- (h) Approve the annual budget for, and authorize such expenditures by the Corporation, as are in the interest of the effective administration and operation of the Corporation;
- (i) Establish the policies and guidelines for the employment of personnel on the basis of merit, technical competence and moral character, and approve a staffing pattern of personnel defining their powers and duties, Provided that the salaries of the officials and employees of the Corporation shall be based on the compensation and position classification system established by the Governance Commission for Government-Owned and -Controlled Corporation and as approved by the President of the Philippines. provided, that the Board shall have exclusive and final authority to

promote, transfer, assign or reassign personnel of the Corporation, subject to pertinent civil service laws; provided, that in no case shall there be any diminution of existing salaries, benefits and other emoluments; and

(j) Exercise the general powers mentioned in Republic Act No. 11232, otherwise known as the "Revised Corporation Code of the Philippines", insofar as these are not inconsistent or incompatible with the provisions of this Act.

SEC. 8. *Management.* – The management of the Corporation shall be vested in the President of the Corporation, who shall be a person of known integrity and technical and managerial competence. The President of the Corporation shall be appointed by the President of the Philippines, and may be removed for a valid cause or any of the following reasons in accordance with the requirement of due process:

(a) If he or she becomes physically or mentally incapacitated from discharging the duties and responsibilities of the office, and such incapacity has lasted for more than six (6) months;

(b) If he or she is guilty of acts or omissions which are of fraudulent or illegal character or which are manifestly opposed to the aims and interests of the Corporation

(c) If he or she no longer possesses the qualifications specified in this Act;

(d) If he or she does not meet the standards of performance based on the evaluation of the Governance Commission for GOCCs under the GCG Law.

The President shall be assisted by one (1) senior vice president and three (3) vice presidents whose appointment and removal for a cause shall be approved by the Board upon the recommendation of the President of the Corporation.

The President of the Corporation shall have the following powers and duties:

(a) Execute and administer the policies, plans and rules and regulations approved and promulgated by the Board;

(b) Submit for the consideration of the Board such policies, plans and programs deemed necessary to carry out the provisions and purposes of this Act;

(c) Direct and supervise the operations and internal administration of the Corporation and, for this purpose, to delegate some or any power and duty to subordinate officials;

(d) Recommend to the Board the appointment, promotion, transfer, assignment, reassignment, demotion, dismissal, and compensation of personnel; and

To exercise such other powers and perform such other duties as may be directed by the Board.

SEC. 9. *The Different Market Segments.* – The definition of the different market segments shall be determined by the Department of Agriculture (DA), provided, that the definition is based on internationally accepted standards and is reflective of the status of the Philippine agricultural sector. Provided, further that the definitions are crafted in consultation with relevant stakeholders and experts. Provided, finally that the definition shall be reviewed at least every three (3) years to ensure that the definition continues to be applicable.

The different market segments to be defined shall include (a) Smallhold Farmers and Fisherfolk; (b) Semi-Commercial; and (c) Commercial. Provided, that the definition and segmentation of the farming population includes at least the following criteria: (i) farm size or number of livestock held or size of the agricultural asset, (ii) commodity type, and (iii) revenue/income levels.

SEC. 9. *Who shall be insured.* – To support the agricultural sector, the Corporation shall provide agricultural insurance products to all eligible or qualified farmers and fisherfolk as evaluated by the Corporation. Farmers and fisherfolk identified in the Registry System for Basic Sectors in Agriculture (RSBSA) shall be qualified to participate in the insurance programs of the Corporation.

The insurance shall be compulsory for farmers and fisherfolk who take out production loans for palay and other crops essential for food security, as determined by the Department of Agriculture (DA). For other crops and agricultural products, insurance coverage shall be compulsory upon all farmers obtaining production loans under the credit program of the government and optional on the part of self-financed farmers.

The Board shall prescribe the criteria to evaluate the eligibility of the farmers, fisherfolk, and food producers, which criteria shall include the vulnerability and risk exposure of farmers, fisherfolk, and food producers to fortuitous natural and climatic events or outbreak of pests and diseases. The Board shall ensure that the covered farmers, fisherfolk, and food producers are adequately protected. The criteria shall be aligned with the objectives of the government, and based on market segments to ensure that the agricultural insurance program is sustainable. The criteria shall be reviewed by the Board every three (3) years.

SEC.10. *Products and Coverage.* – The products to be offered by the Corporation shall be designed to meet the needs of the insured parties; cost efficient; based on sound market principles and international good practices; sustainable; and not disadvantageous to the Government.

Different products shall be designed to meet the differing needs and capacities of the various market segments. Provided, that the products shall be subject to the approval of the Board, and subject to the existing laws, rules and regulations, including provisions of Republic Act No. 10607 or the Revised Insurance Code and Republic Act No. 656 or the Property Insurance Law. Provided, further that the products should not include those already provided by other existing government agencies. Provided, finally that the products shall be reviewed periodically or as the need arises to ensure their continued sustainability and applicability.

SEC. 11. *Rate of Premium, Sharing, and Amount of Indemnity.* – The rate of premium for the Corporation’s products, as well as the allocated sharing thereof by the farmers, fisherfolk, lending institutions, the Government of the Republic of the Philippines (herein called the Government), and other parties, shall be determined by the Board: Provided, that the determination ensures cost-efficiency and shall be based on international best practices, actuarial valuation, and on sound market-based principles. Provided further, that analytical and actuarial studies shall be conducted regularly to quantify the risk and ensure proper management and pricing of risks undertaken. Provided further, the premium share of farmer, fisherfolk, or food producer shall be affordable and reasonable.

Provided, finally that the Government shall share in the premium cost only in insurance coverage against fortuitous natural and climatic events or outbreak of pests and diseases.

The amount of indemnity shall be based on loss assessment for indemnity insurance products, subject to limits stipulated in the policy contract or as determined in the contract for non-indemnity based programs. Provided, that the process of assessing losses is based on industry standards and international best practices. Provided further, that the assessors are duly certified by the Insurance Commission to conduct the loss assessment.

SEC. 12. *Premium Subsidy.* – Any subsidies on the programs of Corporation shall be for the benefit of farmers and fisherfolk. Provided, further that the Board shall prescribe a risk based premium subsidy schedule, which shall provide the rates of subsidies on the different products for the identified sectors and segments of farmers, fisherfolk, and producers.

The schedule shall be made publicly available and distributed to the relevant stakeholders every January, following the approval of the General Appropriations Act (GAA).

Yearly projections of the premium subsidy shall be submitted to the Board, and upon their approval shall be proposed to the Development Budget Coordination Committee (DBCC) for inclusion in the Government’s budgetary appropriations.

Provided, that the projections are based on actuarial valuation and sound market assessment. Provided, further that the amount of subsidy to be provided will not impair the fiscal capacity of the National Government.

SEC.13. *Settlement of Claims.* – The settlement of any and all claims against the Corporation shall be based on the following principles and guidelines:

- (a) The settlement shall be done promptly, efficiently, and judiciously;
- (b) The assessment shall be based on international standards and best practices, and sound market principles;
- (c) The assessment shall be actuarially sound;
- (d) The assessment shall be done by a qualified and authorized claims adjuster duly certified by the Insurance Commission with the relevant expertise and competence on the claim to be assessed; and
- (e) The settlement procedures, including timelines, shall be done in accordance with the prescribed rules in the Insurance Code, or as prescribed by the Board, and consistent with the Citizen’s Charter.

The guidelines on the claims processing, including timelines and key activities, shall be duly published by the Corporation and made publicly available. The guidelines shall be reviewed every three (3) years or as need the arises depending on the urgency of the review.

SEC. 14. *Role of Private Sector.* - To enable the active participation of the private sector in agricultural insurance, the Corporation may:

- (a) Establish public-private partnerships;
- (b) Enter into a joint venture;
- (c) Consult with the private sector in product design and development, marketing, underwriting, and claims settlement;
- (d) Enter into pilot agricultural coinsurance programs under the IC Advisory 2021-09, Guidelines on the Adoption of a Regulatory Sandbox Framework for Piloting Agriculture Insurance.

SEC. 15. *Risk Management.* - The Corporation shall ensure its risks are properly and adequately managed in all areas of its business. This shall include:

- (a) Retention – The Corporation is directed to abide by the rules set by the Insurance Commission (IC) as regards the maximum retention based on the Corporation’s net worth;

(b) Reinsurance – In order to spread the risk of the Corporation, the PCIC is directed to seek reinsurance protection whenever it may be available, primarily with the GSIS pursuant to R.A. No. 656 and related laws/rules/regulations/issuances, to transfer the risks above the capacity of the Corporation, in accordance with rules and regulations of the IC;

(c) Solvency – The Corporation is directed to comply with the general requirements of the IC on solvency.

(d) Operations – The Corporation is directed to abide by the legal and regulatory operations requirements as well as international standards, especially with regard to data, pricing, risk assessment, product design, and insurance education, among others.

(e) Investment – The funds of the Corporation which are not needed to meet the current obligations may be invested under such terms and conditions and rules and regulations as may be prescribed by the Board: Provided, that investments shall satisfy the requirements of liquidity, safety/security and yield in order to ensure the actuarial solvency of the funds of the Corporation.

SEC. 16. Capital Stock. The authorized capital stock of the Corporation is Two billion pesos (P2,000,000,000.00) divided into Fifteen million (15,000,000.00) common shares with a par value of One hundred pesos (P100) each share, which shall be fully subscribed by the Government; and Five million (5,000,000.00) preferred shares with a par value of One hundred pesos (P100) per share, which shall have the features as provided herein and shall be issued in accordance with the provisions hereof.

The paid-in capital of the Corporation upon its organization shall be TWO HUNDRED FIFTY MILLION PESOS (P250,000,000.00), and shall be appropriated and paid in as follows:

(a) ONE HUNDRED FIFTY MILLION PESOS (P150,000,000) to be subscribed and paid in by the Government out of the net assets transferred from the Agricultural Guarantee Funds as provided in Section 7 hereof: Provided, That the amount by which the net assets exceed ONE HUNDRED FIFTY MILLION PESOS (P150,000,000) shall be considered contributed surplus and treated as such on the books of the Corporation;

(b) An additional ONE HUNDRED MILLION PESOS (P100,000,000) to be likewise subscribed and paid in by the Government out of funds of the National Treasury not otherwise appropriated.

The additional common capital stock of One billion pesos (P1,000,000,000) shall be fully subscribed by the Government and the necessary funds shall be appropriated

by Congress unless otherwise provided by existing laws: Provided, That Congress shall provide, on an annual basis, at least fifty percent (50%) of the needed capital until the authorized capital stock is fully paid up.”

The preferred shares shall be entitled to a preference over common shares in any declaration of dividends. They shall also be given priority in the distribution of assets in the event of liquidation of the Corporation. They shall have the following specific features:

- (a) Preferred as to dividends at a minimum of six per cent (6%);
- (b) Cumulative;
- (c) Participating;
- (d) Non-voting;
- (e) Dividends thereon shall be exempt from income tax;
- (f) Redeemable at the option of the Corporation at the prevailing book value but in no case less than par after five (5) years from issuance thereof;
- (h) The preferred shares may be available for sale or to subscription by the general public. The additional common capital stock shall not be used, in any case, to expand the present manpower of the Corporation.

SEC. 17. *Commission on Audit.* – The Chairperson of the Commission on Audit shall be the ex officio auditor of the Corporation.

SEC. 18. *Legal Counsel.* – The Corporation shall have its own Legal Department, the head of which shall be appointed by the Board of Directors.

SEC. 19. *Oversight of the Insurance Commission.* – Pursuant to Section 253 of Republic Act No. 10607 or the Insurance Code, the IC shall conduct an examination into the affairs, financial condition, and method of business of the corporation annually, or as often as may be directed by the Insurance Commissioner or the Secretary of Finance. The results of such examination shall be submitted by the IC to the DOF.

Provided, further that the Corporation, as an entity engaged in the insurance business, and shall be under the oversight of the IC. As such, the provisions of Republic Act No. 10607 otherwise known as the Revised Insurance Code, or hereafter any succeeding amendments to the Insurance Code, and the Insurance Commission’s issuances shall apply to the Corporation, particularly on matters of underwriting, claims settlement, reinsurance, reserves, business operations and investment, insofar as they are not inconsistent with this Charter

SEC. 20. *Term of Existence.* – The Corporation’s term of legal existence shall be extended for another fifty (50) years, commencing on the date of the effectivity of this Act.

SEC. 21. *Implementing Rules and Regulations.* – The Board shall promulgate the necessary rules and regulations to implement this Act not later than XX days after its effectivity.

SEC. 22. *Separability Clause.* – If any provision or part hereof is held unconstitutional or invalid, the other provisions not affected shall remain in force and effect.

SEC. 23. *Repealing Clause.* – Presidential Decree No. 1467, as amended by Presidential Decree No. 1733 and Republic Act No. 8175, are hereby repealed. All other laws, executive orders, and other issuances or parts thereof inconsistent with this Act are hereby repealed or modified accordingly.

SEC.24. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the Official Gazette or in a newspaper of general circulation.

Approved,