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

Circular Letter (CL) No.:	**2021-11**
Date:	**17 February 2021**

CIRCULAR LETTER

TO : **ALL HEALTH MAINTENANCE ORGANIZATIONS AND PRE-NEED COMPANIES**

SUBJECT : **GUIDELINES ON THE ADOPTION OF A REGULATORY SANDBOX FRAMEWORK FOR FINANCIAL TECHNOLOGY (FINTECH) INNOVATIONS FOR HEALTH MAINTENANCE ORGANIZATIONS (HMOs) AND PRE-NEED COMPANIES**

WHEREAS, technological innovations have been a key driver of change in the financial sector, leading to the advent of Financial Technology (FinTech);

WHEREAS, the utilization of these technological innovations, as applied in the conduct of business of 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 FinTech innovations through experimentation, testing, and learning, which can be achieved 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 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 Financial Technology (FinTech) Innovations* are hereby adopted and promulgated, to wit:

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 Health Maintenance Organization (HMO) or

CERTIFIED TRUE / PHOTO COPY

TRANQUILINO E. ESPEJON
IC Supervising Administrative Officer
Administrative Division
Insurance Commission

pre-need company, 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 **technological innovations** 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 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., FinTech start-ups, the same must first comply with existing regulations issued by this Commission, insofar as applicable, before submitting any application for participation 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 Regulation, Enforcement and Prosecution Division (REPD), whether in hard copy, flash drive or compact disc[1]:

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 technological innovations within

[1] 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.

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, solution or service 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, solution or service 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, etc.; and

   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 technological solution 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 HMO or pre-need company 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 technological solution 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 technological solution can promote or provide equal opportunity to access 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.

CERTIFIED TRUE / PHOTO COPY

TRANQUILINO E. ESPEJON
IC Supervising Administrative Officer
Administrative Division
Insurance Commission

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 technological solution or experiment 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 technological solution 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. – HMOs/pre-need companies that intend to apply for a new product, or amend matters in its existing 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 its existing product/s may be done simultaneously or prior to the 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 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.

CERTIFIED TRUE / PHOTO COPY

TRANQUILINO E. ESPEJON
IC Supervising Administrative Officer
Administrative Division
Insurance Commission

DENNIS B. FUNA
Insurance Commissioner