

Republic of the Philippines
House of Representatives
Quezon City

EIGHTEENTH CONGRESS
First Regular Session



HOUSE BILL NO. 233

INTRODUCED BY REPRESENTATIVE ALFRED VARGAS

EXPLANATORY NOTE

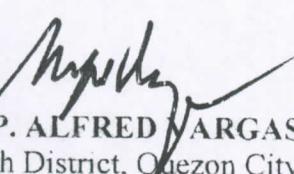
Our farmers are the most helpless lot each time a weather calamity hits the country. Yet the Philippine Crop Insurance Corporation's programs - supported by only P3.0 billion worth of assets are simply not enough. At most, only 12% of rice and corn farms are covered. And then come the farmers' complaints of delayed receipt of minuscule payouts, further aggravating their poverty status. Government must provide the long promised safety nets that our agriculture stakeholders need, especially our small rice and corn farmers.

The Philippines has seen extremes in terms of "excess rainfall", high temperatures, and very strong and destructive typhoons in recent years such as Yolanda, Ondoy, Sendong, and Pablo.

We must now involve the private sector with their wider presence and much bigger total insurance resources, in excess of P250 billion. The FIBIA program promises better service, faster payouts, utilizing the latest and through the coordinated networks of the insurance industry, the LGUs, organized farmers groups and other stakeholders.

What we need is for the private sector to complement the current limited coverage of farmers. This bill, thus, seeks to highlight partnerships and complementation as we try to serve the poorest and most vulnerable small hold farmers rice and corn farmers. This is, I believe, is what financial inclusion and risk sharing is all about.

I earnestly appeal for the bill's immediate approval.


REP. ALFRED VARGAS
Fifth District, Quezon City

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INTRODUCED BY REPRESENTATIVE ALFRED VARGAS

AN ACT

**TO SUPPORT SMALL FARMERS AGAINST CLIMATE CHANGE RISKS BY
ESTABLISHING A PROGRAM TO PROVIDE FREE WEATHER INDEX-BASED
INSURANCE FOR AGRICULTURE AND FISHERIES, PROVIDING THE SOURCE
OF FUNDING THEREFOR, AND FOR OTHER PURPOSES**

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

Section 1. *Short Title.* This Act shall be known as the Free Index-Based Insurance for Agriculture (FIBIA) Act of 2019."

Section 2. *Declaration of Policy.* It is the policy of the State to help farmers and agricultural producers withstand the adverse impact of disastrous weather events, facilitate their prompt recovery from crop damage or crop devastation which have often led to uncompensated losses, heavy financial burden and unpaid debts.

The Climate Change Act of 2009 (RA 9729) has sought to "create an enabling environment for the design of relevant and appropriate risk-sharing and risk-transfer instruments;" and to "coordinate with local government units (LGUs) and private entities to address vulnerability to climate change impacts of regions, provinces, cities and municipalities."

In order to reach out and serve the greatest number Filipino farmers, fisher-folks and agricultural producers, the State shall encourage private insurance service providers to complement the government crop insurance programs by way of innovative risk sharing mechanisms, specifically weather index based crop insurance programs.

Section 3. *Definition of Terms.* As used in this Act, the following terms shall be defined as follows:

- a. *Insurance* - is the service rendered by insurance providers to protect the insured clients against the probability of a large unexpected loss through the transfer and sharing of risks to compensate for unexpected but financially disastrous events.
- b. *Agriculture insurance* - is an insurance service to protect farmers and agriculture producers against financial losses and uncertainties brought about by crop failures, pests, extreme weather conditions and/or other causes beyond their control, as indicated in the insurance policy issued by the insurance provider/s to the client/s.

- c. *Insurance Policy* – is a document or certification issued by the insurance provider/s to the insurance clients as proof that the latter is covered by an insurance service with the specified terms, premium costs, trigger event, payout benefits, and duration of coverage as indicated in the said document.
- d. *Weather Index-based Insurance (WIBI)* - is an innovative insurance product that aims to provide prompt insurance payout against the incidence of extreme weather conditions through the use of scientifically measurable weather parameters such as rainfall, temperature, frost, humidity and/or other gauges as proxy and transparent indicators of the occurrence of an adverse event.
- e. *Payout*– the amount paid or to be paid by the insurance service provider on account of the occurrence of an event, such as the breach of an agreed lower or upper limit in weather indicators, as specified in an insurance contract.
- f. *Triggers* - threshold measurement points for the selected weather index parameter or indicator at which the insurance contract starts to pay out.
- g. *Reference Weather Station (RWS)* - a specified meteorological station for each insurance contract as the named reference station from which the observed weather parameter/s shall be principally obtained. This may be a particular weather facility of the Philippine Atmospheric Geo-Physical and Astronomical Services Administration (PAGASA), a particular automated weather station (AWS) under Project NOAH of the Department of Science and Technology (DOST), any WMO-compliant private weather station, and/or any satellite-based weather observation service recognized by international re-insurance providers.
- h. Weather index risk analysts or weather calculator agents – are information support professionals who specialize in meteorological, climatological and/or weather sciences, providing expert scientific studies, technical information, computer models and/or maintenance of automatic weather stations calibrated for use in the forecasting and validation of weather occurrences and also in risk and actuarial analyses for weather index-based insurance programs; Provided, that: said professionals shall register, whether as individuals or corporate entities, with the Insurance Commission as third party professional meteorological and weather information service providers subject to technical standards provided for by PAGASA in terms of calibration.
- i. *Small Farmer/Producer*– is a farmer whose total combined farmed area or farmholdings cover an area of not more than five hectares.

Section 4. *Free Index-Based Crop Insurance Framework*. There is hereby established a nationwide Free Index-based Insurance for Agriculture (FIBIA) Program that shall operate under the following policy framework:

4.1 Weather Index-Based Insurance Product. The typical core features of an index-based insurance product shall be present in a crop insurance contract under the Program, as follows:

4.1.1 An agreed weather reference index, such as, but not limited to rainfall (mm), wind speed (kilometers per hour) and temperature (degrees) whose quantification is provided for each Reference Unit Area and for which data is monitored, reported and validated by an independent third party weather information service provider such as PAGASA or DOST-ASTI, IC-registered professional weather information services using and maintaining automatic weather stations, or any satellite-based weather observation service recognized by international re-insurance providers.

4.1.2 A Reference Weather Station as the named meteorological station from which the observed weather parameter shall be obtained and in the event of failure, an agreed fallback methodology maybe utilized;

4.1.3 A Trigger Reference Point on the agreed index parameter;

4.1.4 A Payout or lump sum insurance amount to be paid within ten days from the breach of the trigger reference point that takes into account the actual area planted and growth phase of the crop.

4.1.5 Phases of Crop Growth or Crop Cultivation that will be covered by specific terms of the insurance – which may refer to a separate trigger and payout amounts for each phase of vegetative growth or crop cultivation stage.

4.2 Insurance Service Providers. The FIBIA Program shall be open to all government and private sector insurance and re-insurance providers that will be accredited based on the policies and guidelines to be formulated by the FIBIA Project Management Office created under this Act. All Weather Index-Based Insurance and re-insurance providers shall be under the regulatory supervision of the Insurance Commission.

4.3 Stakeholders and Participants. The main beneficiaries of the FIBIA program shall be the Filipino small hold farmers and agriculture and fisheries producers or farmers' cooperatives who shall register with their respective Local Government Units (LGUs) for the particular crop or production insurance program offered by the LGU through accredited insurance providers. The LGUs may set aside supplemental local funds to complement the premium subsidies that will be provided by the national government. The beneficiary farmers may also pay premium for added insurance features that may be offered by providers.

4.4 No Need for Calamity Declaration. Any breach of the insurance parameters as stated in the FIBIA policy contracts shall be the sole trigger or basis for any payout and shall not require the declaration of a state of calamity by the LGU in order to trigger the obligation of the insurer to the insured farmers/producers.

Section 5. Program Administration. There is hereby created a FIBIA Program Management Office (PMO) under the Insurance Commission that will focus on establishing the needed coordination mechanisms to implement the program. The FIBIA-PMO shall:

- a. Introduce and popularize the program for farmers' groups for their benefit and regular use of Weather Index-Based Insurance for agriculture.
- b. Coordinate with the various stakeholders, including the Department of Agriculture, National Disaster Risk Reduction & Management Council (NDRRMC), Local Government Units (LGUs), insurance service providers and the scientific community,

on the widest possible implementation of the FIBIA program based on the rules and guidelines formulated by the FIBIA Oversight Board;

- c. Establish and maintain, a Weather Risk Data Center for index-based agriculture insurance, which information may be obtained from various sources, including PAGASA, records of the Philippine Crop Insurance Corporation, DOST-ASTI's Project NOAH, UP-Los Banos' Project SARAI, agriculture colleges and universities, other government research institutions, and commercial sources such as satellite-based weather monitoring services;
- d. Monitor, in coordination with the Insurance Commission, the progress and concerns of all index-based agriculture insurance providers in the country;
- e. Accept the participation of national and region-based insurance providers or insurance pools and intermediaries such as brokers, insurance agents and weather index analysts or weather calculator agents -- who shall henceforth register with the Insurance Commission to develop and register insurance products based on actuarially sound insurance and re-insurance principles and ancillary services providing science- and evidenced-based weather validation and analysis.
- f. Coordinate with the municipalities and cities and farmers' cooperative federations that are eligible to undertake the FIBIA Program in order to facilitate their access, registration and participation to the FIBIA Program as group insurance clients/beneficiaries.
- g. Undertake, in partnership with the scientific communities, the development and conduct of relevant studies on other crops and agriculture produce as well as on other innovative modes of risk management that will encourage participation in index-based insurance and re-insurance; and
- h. Oversee, monitor and ensure compliance by the relevant parties in the implementation of the Program and the provisions of the index-based insurance and re-insurance contracts.

The PMO shall be headed by an Executive Director, to be appointed by the President, who shall formulate the agency's organization structure, strategic and operational plans, and annual budgets which shall not exceed 2% of the total premium subsidies to be allotted for each fiscal year for approval and endorsement by the FIBIA Oversight Board. The PMO shall adhere to the Micro-Agri Policy Framework adopted by the Insurance Commission.

Section 6. *FIBIA Oversight Board*. An Oversight Board shall convene at least twice a year to monitor and oversee the operation of the FIBIA program and the administration of all index-based agriculture insurance in the country. This shall be composed of the heads of the following institutions and agencies, or their designated permanent representatives:

1. Insurance Commission, to serve as Chairman
2. Department of Agriculture
3. Department of Interior and Local Government
4. Cooperatives Development Authority
5. National Disaster Risk Reduction and Management Council (NDRRMC)
6. Department of Science and Technology

7. Three (3) farmers, representing farmer organizations or farmer cooperative federations from the country's three major island groups - to be appointed by the President of the Philippines, and
8. Three (3) representatives from the insurance industry, including the Philippine Crop Insurance Corporation and two (2) from the private sector representing the non-life insurance industry.

The Board shall have the following functions:

- a. Confirm or approve the organization plans, strategic and operational plans, and annual budgets to be submitted in the developed, managed, and monitored by PMO, with the end in view of ensuring proper and transparent implementation of the Program with the widest possible outreach for small farmers;
- b. Confirm the rules and guidelines for the implementation and monitoring of index-based crop insurance programs, taking into account actuarially sound insurance and re-insurance principles;
- c. Fix and regularly update the maximum levels of insurance coverage levels and maximum premiums that can be used as basis for subsequent budgets of the FIBIA and other related programs; and
- d. Prepare, through the PMO, an annual report on the implementation and extent of availment by farmers and LGUs of the FIBIA program.

Section 7. Role of PAGASA and Other Weather Information Providers. The Philippine Atmospheric Geophysical and Astronomical Service Administration (PAGASA), consistent with its mandates under the PAGASA Modernization Act of 2015 (or R.A. No. 10692), shall provide adequate, up-to-date, and timely information on atmospheric, astronomical, and other weather related phenomena as well as assessments pertinent to climate change adaptation programs, such as weather index-based insurance.

PAGASA, and other weather science research institutions, such as the Project NOAH and Project SARAI of the University of the Philippines, and university-based climate institutes, shall continue to conduct and publish relevant weather damage and crop yield correlation research and other scientific studies, prepare computerized analytical systems, and accessible weather information analysis of future climate scenarios, among others.

PAGASA may partner with relevant scientific organizations, research institutes and/or private sector entities for the implementation of specialized services and cost recovery programs and may collect a minimal service fee for its weather data certifications.

The accredited index-based insurance service providers may also opt to partner with or subscribe to recognized satellite-based weather information service agencies as their alternative source and basis for determining the weather thresholds and risk levels. Insurance providers utilizing satellite-based weather information services shall report to the FIBIA-PMO details on the objectivity and reliability of such weather information facilities. The assistance of meteorological information support professionals may be sought to calculate and analyze the risk levels or provide computations to complement the data from weather stations of PAGASA, Project NOAH facilities and other monitored public or privately-owned weather sensors.

Section 8. Role of Local Government Units. The FIBIA Program shall be implemented by city and municipal LGUs for the farmers and farm crops within their areas of jurisdiction. The LGU shall campaign and advocate for the FIBIA program as a group or community crop insurance facility and conduct information and education programs with the help of their barangay officials and representatives of participating insurance providers. The farmers shall formally register with the Municipal or City Agriculturist at least 45 days prior to the start of crop planting. The participating insurance institution shall provide the group insurance policy through the LGU and, in turn, the LGU shall distribute the appropriate sub-policy contracts to the beneficiary farmers for their respective free weather index crop insurance, indicating the name of the farmer and crop to be insured, farm area and location, start of planting and expected harvest schedule and their estimated cost of production using their latest expected prices of farm inputs.

The Municipal or City Agriculturist and the insurance provider shall electronically collate the farmers' insurance information and submit these to FIBIA-PMO at least 20 days prior to the start of the planting season.

Section 9. Free Premium and Source of Funding. To subsidize the free premiums of farmers under the FIBIA Program, the minimum amount of Ten Billion pesos (P10.0 billion) shall be sourced from or included in the National Disaster Risk Reduction Funds in the annual budget of the Government for the purpose of *Premium Subsidy to FIBIA beneficiaries*. Henceforth, this FIBIA Premium Subsidy Fund shall be included as an additional line item in subsequent annual national appropriations, as a separate component of the Climate Change adaptation and disaster risk mitigation, the amount of which shall be automatically augmented in proportion to the applicable inflation rate adopted by the Development Budget Coordinating Council for the ensuing year.

The insurance premium subsidies for the crops and farms of the insured farms shall be securely transmitted electronically to the selected insurance provider or insurance pool based upon the submission of the lists and data of insured farmers by the LGUs and/or CDA-accredited cooperative federations to the PMO; Provided that the national average premium amount for the insurance coverage will not exceed six percent (6%) of the average cost of production of the totality of covered crops, with adjustments for the comparative frequencies of weather occurrences in each region or province.

The insurance service providers shall immediately submit reports to the concerned LGU and the FIBIA-PMO on their covered farms and insurance clients for the relevant Reference Unit Areas. The insurance providers may independently conduct marketing activities to advertise and popularize their insurance services.

Section 10. Climate Risk Mitigation Fund for Small Farmers. There is hereby created a *Climate Risk Mitigation Fund for Small Farmers* to be managed by the FIBIA-PMO. Any and all unutilized amounts under the FIBIA program for any given year shall accrue to this Fund and may be used to further enhance index-based crop insurance in the country such as any of, but not limited to, the following purposes: institution and capacity building in the various regions of the country, information and education campaigns for all agriculture-based municipalities and cities, the enhancement and updating of the weather risk analytics centers, and improvement of communication and coordination between and among the key stakeholders, especially the small farmers.

Section 11. *Exemption from the Procurement Law (R.A. 9184).* The procurement of weather index-based insurance services under this Act shall be exempt from the coverage of Republic Act 9184, provided, that:

- a. The insurance provider is comprised of a pool of insurance companies formed as a joint venture with capitalization that is at least equal to the amount of premium to be collected;
- b. The insurance to be procured is a group insurance policy for a composite set of farmer clients within a municipality or a set of at least five barangays;
- c. The insured farms have been mapped and are within coverage of a Reference Weather Station or a satellite remote sensing service;
- d. Validation services of an independent third party weather information meteorological calculator agents is registered with the Insurance Commission; and
- e. The composite set of barangays, municipalities, provinces and/or regions are packaged with a balanced profile of high risk and low risk areas, as may be approved or coordinated by the FIBIA-PMO.

Services to be provided by actuarial professionals, calculator agents and/or specialized weather risk analysts accredited by the FIBIA-PMO and IC shall also be exempt from R.A. 9184, provided that their professional fees shall not exceed 6% of the insurance premium.

Section 12. *Tax Exemptions.* All premium payments paid for index-based insurance contracts registered with the LGUs and coordinated with the FIBIA-PMO shall be exempt from VAT and other relevant transaction taxes, including Documentary Stamp Taxes.

Section 13. *Mandatory Agri-Insurance Quota* - All non-life insurance institutions, whether government or private, are mandated to ensure that a minimum of five percent (5%) of their gross written premiums shall be in the agriculture sector; Provided, that at least 50% of their agriculture insurance portfolio shall be devoted to index-based crop insurance for small hold farmers as defined in this Act.

Section 14. *Penalty Clause* – The Insurance Commission shall strictly monitor the compliance of all non-life insurance institutions with respect to the Agri-Insurance Quota as provided for in the preceding section. Administrative sanctions and other penalties shall be imposed by the Commission for non-compliance with the provisions of this Act, which shall be equivalent to two percent (2%) of the premium value of non-compliance with the Agri-Insurance Quota based on their total insured interests for the year. Two consecutive years of non-compliance shall be a ground for the cancellation of a company's non-life insurance license.

For the agricultural areas and communities covered under the FIBIA Program, the elected LGU officials and key administrative officers, including but not limited to the Mayor, Vice Mayor, Municipal/City Administrator, Municipal/City Agriculturist, Treasurer, and Accountant shall be administratively liable for non-implementation of the weather index insurance for their constituent farmers, subject to Book V-Title I-Subtitle A-Chapter 7 (Discipline) of the Administrative Code (E.O. 292)under its Civil Service Commission Subtitle, as amended, and Rule XI (Penalties) under the Code of Conduct and Ethical Standards for Public Officials and Employees, (R.A. No. 6713).

Section 15. Transitory Provisions. The FIBIA Program shall initially cover the staple crops, namely: rice and corn farms, in the Top 30 rice and corn producing provinces of the preceding year based on data from the Philippine Statistical Authority. This is without prejudice to including farmers in additional provinces, municipalities and contiguous areas as the FIBIA-PMO, LGUs and that the insurance providers may be able to coordinate.

Within a period of five years from the approval of this Act, the PMO shall coordinate and partner with the scientific community and relevant research and academic institutions on the development of weather risk models for crop yield and crop damage based on Philippine climate information and data and other studies to widen the coverage of weather index-based insurance to other agriculture crops and livestock.

Section 16. *Implementing Rules and Regulations.* Within sixty days from the effectivity of this Act, the Insurance Commissioner shall convene the FIBIA Oversight Board to formulate and adopt the Implementing Rules and Regulations of this Act within the ensuing period of three months. The IC shall initially provide secretariat support to the Board, pending the establishment of the FIBIA-PMO which shall then become the secretariat of the Board.

Section 17. *Repealing Clause.* All laws, executive orders, rules and regulations, or parts thereof, inconsistent herewith are hereby repealed or modified accordingly.

Section 18. *Separability Clause.* The provisions of this Act are hereby declared to be separable. If any provision of this Act shall be held unconstitutional, the remainder of the Act not otherwise affected shall remain in full force and effect.

Section 19. *Effectivity.* This Act shall take effect upon its publication in the Official Gazette.