

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS
First Regular Session

House Bill No. 3560



INTRODUCED BY REPRESENTATIVE ARTHUR C. YAP

EXPLANATORY NOTE

The agricultural sector in the country is highly vulnerable to the unpredictability of nature which throughout the year brings about floods, dry-spells, droughts and typhoons leaving damages to crops, lives and properties of farmers and fisher-folk.

Due to climate change, typhoons are more intense, the decrease in rainfall lead to increased drought risks and the wet season is expected to receive more rainfall in most parts of the country with potentially more frequent and intense floods.

In 2013, the Philippines was once dubbed as the number one country most impacted by climate change according to Germanwatch Global Climate Risk Index. Hence, as a country, we need to take necessary action in preparing for greater uncertainties and risks of climate change. One way to do this is through innovative crop insurance products provided by the insurance sector.

Presently, convential concepts on insurance dwell on peril or indemnity based products. Upon the occurrence of a calamity resulting in damages, assessors are sent to the field to determine the extent and cost of damages, Unfortunately, for agriculture, this system is fraught with moral and adverse selection hazards. There are occasions when assessors will not report the correct amount in damages and the insured not declaring all the relevant information needed by the insurance provider to come up with a responsive insurance product. Most of all, in order to ensure payment, a tedious and time consuming process is required which is fatal in agriculture where financial aid is needed during the planting season to allow the farmers the resilience to save their crops or re-plant when needed so as not to lose the planting season.

The result of the cumbersome process is most reflected in the cost of high premiums for crop products—a sure way to turn off farmers and fisher-folk from utilizing insurance in their farm and fishery activities. It is no wonder that farmers and fisher-folk are not interested to understand and know more about crop insurance or the simple reason that Philippine crop insurance today, has provided help only to a few rather than the many. Case in point are the following statistics: in the last five years (2010-2015) Philippine agriculture was subjected to an average of 20 tropical cyclones per year averaging damages per year in the amount of PHP 30,000,000,000.00 pesos. This amount is confined to actual crop losses which do not include damages to agriculture infrastructure. Enough said on whether or not crop insurance has been able to help Philippine farmers or not.

The result of the shortfalls of the system ensures that farmers and fisher-folk can never get out of the poverty trap they are in. They need to borrow money to plant and sink into an ever deeper quick-sand of debt when calamities strike and wipe out their crops.

There is nothing left for saving and in fact, productive assets are even sold in the interim to make up for the losses. Those who are lucky to survive are enslaved to conservative farming practices, which deprive them of possibly higher returns. They are fearful enough never to expand nor to engage in innovate but riskier farm activities. The result is poverty from which there is no escape.

But the truth is, there are instruments, products and measures that are science based and can help address these loss and damages inflicted upon our farmers. Science based solutions can usher in a new era of intensified agricultural production and provide a safety net for all farmers at the same time: here we refer to index based insurance for agriculture. Unlike traditional crop insurance in which indemnity payments are linked to individual farmer yields and losses, index insurance links payments to independently established data such as local rainfall, wind speed, temperature, typhoons, cyclones, and historical yield data as trigger events to release payments and compensation to affected farmers and fisher-folk.

Such an approach will solve many of the cost and informational problems associated with traditional crop insurance, not to mention avoidance of the moral and adverse selection hazards. The insurer no longer needs to send out assessors to engage in the tedious and time-consuming task of assessing damages and losses while farmers will not be subjected to the hazards of full transparency in declaring farm condition and related information. The fact that trigger events for payments are based on independently gathered and trust-worthy information results in significantly lower priced premiums and timely payments. When a level of rainfall, wind-speed, or humidity is breached or struck, payments will have to be issued considering that these factors significantly affect farm yields. Most importantly, payments can be made affording the farmer the capability and resources to immediately save or preserve his investments during the planting season and not several months down the road after a calamity has struck.

Hence, index based insurance is an innovative and technically-sound approach to manage risks especially for our poor and highly vulnerable farmers in the Philippine rural countryside. This is the future of crop insurance and a life saver for Philippine farmers.

Policy setting by way of administrative issuances has proven insufficient, particularly in the light of funding concerns. Hence, providing for a legislation that supports this program is necessary.

This measure is not meant to castigate the performance of PCIC, but in fact is meant to strengthen and improve the performance of PCIC ensuring that it has the capacity and capability to partner with the private sector in assisting farmers and fisher-folk mitigate and address losses arising from climate change.

This bill aims to mandate PCIC and encourage private insurance companies to offer index based insurance as one of their products. This bill will also allow PCIC to engage in the business of reinsurance but only to cover index based insurance contracts underwritten by private insurance companies.

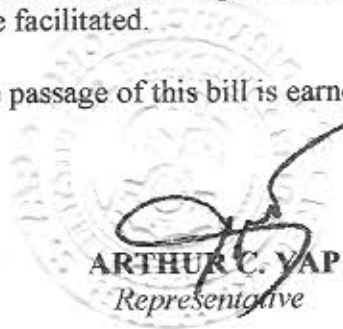
Furthermore, this bill seeks to expand the insurance coverage of PCIC to include high value commercial crops, livestock, aquaculture and fishery products, agroforestry crops and forest plantations.

Moreover, this bill will also amend the composition of the Board of Directors to include the Secretary of Agriculture and the Commissioner of Insurance Commission as ex-officio members.

This bill aims to sustain the PCIC insurance coverage's funding requirements by increasing its authorized capital stock to Ten Billion Pesos (Php 10,000,000,000.00)

Additionally, to safeguard PCIC's existing financial resources, this bill imposes heavier penalties to spurious claimants. In this manner, it is hoped that more seasonable release of claims to legitimate claimants will be facilitated.

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



ARTHUR C. YAP
Representative

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SEVENTEENTH CONGRESS
First Regular Session

House Bill No. 3560

INTRODUCED BY REPRESENTATIVE ARTHUR C. YAP

AN ACT
MANDATING THE PHILIPPINE CROP INSURANCE
CORPORATION TO OFFER INDEX BASED INSURANCE
COVERAGE AND ALLOWING IT TO ENGAGE IN
REINSURANCE, INCREASING ITS FUNDING SOURCE AND
IMPOSING HEAVIER PENALTIES ON SPURIOUS CLAIMS,
AMENDING FOR THE PURPOSE PRESIDENTIAL DECREE NO.
1467, AS AMENDED, OTHERWISE KNOWN AS THE CHARTER
OF THE PHILIPPINE CROP INSURANCE CORPORATION (PCIP)

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

1 **SECTION 1.** Section 1 of Presidential Decree No. 1467, as amended, is hereby
2 further amended to read as follows:

3 “SEC. 1. Creation of the Philippine Crop Insurance Corporation. –
4 There is hereby created a body corporate to be known as the “Philippine
5 Crop Insurance Corporation” (PCIC and herein called the Corporation)
6 which shall be attached to the Department of Agriculture [for budgetary
7 purposes]. The Corporation shall insure qualified farmers AND
8 FISHERFOLK against losses arising from natural calamities,
9 FORTUITOUS EVENTS, plant AND FISH diseases and pest infestations.
10 [Initially] [t]The Corporation shall provide insurance coverage for palay
11 AND CORN crops, HIGH-VALUE COMMERCIAL CROPS,
12 LIVESTOCK, AQUACULTURE AND FISHERY PRODUCTS,
13 AGROFORESTRY CROPS AND FOREST PLANTATIONS; [and later
14 on to other crops without prejudice to the inclusion of other] non-crop
15 agricultural assets such as but not limited to machineries, equipment,
16 transport facilities and other related infrastructures[;], AND LIFE AND
17 ACCIDENT [TERM] INSURANCE COVERAGE FOR FARMERS AND

1 FISHERFOLK, as the Board of Directors of the Corporation may
2 determine. Such crop insurance shall cover, in every case, the cost of
3 production inputs, the value of the farmer's OR FISHERFOLK'S own labor
4 and those of the members of his household, including the value of the labor
5 of hired workers, and a portion of the expected yield as the Board of
6 Directors, in its discretion, decide to insure. Such insurance protection,
7 however, shall exclude losses arising from avoidable risks emanating from
8 or due to the negligence, malfeasance or fraud committed by the insured or
9 any member of his immediate farm household or employee or the failure of
10 the insured to follow proven farm practices.

11 THE CORPORATION IS MANDATED TO PROVIDE INDEX
12 BASED INSURANCE AND REINSURANCE FOR PALAY AND CORN
13 CROPS, HIGH-VALUE COMMERCIAL CROPS, LIVESTOCK,
14 AQUACULTURE AND FISHERY PRODUCTS, AGROFORESTRY
15 CROPS AND FOREST PLANTATIONS.

16
17 **SECTION 2.** Subsections 3.5 and 3.11 of Section 3 of Presidential Decree No.
18 1467, as amended, are hereby further amended to read as follows:

19
20 "SEC. 3. Powers. - The Corporation shall have the following
21 powers:

22 x x x

23 3.5. To insure the [rice production] CROPS of farmers AND
24 FISHERFOLK against loss, damage and destruction caused by
25 natural calamities such as typhoons, floods, drought, earthquake,
26 volcanic eruptions, rodents, vermin[s], diseases, insects and other
27 pests; and to carry on any business necessary, related to and
28 expedient for the above purpose;

29 x x x

30 3.11. To generate internal funds by floating bonds, [expansion to
31 other] EXPANDING THE CORPORATION'S insurance lines [and]
32 [and] extending coverage to other areas of agriculture[,] SUCH AS
33 LIVESTOCK, AQUACULTURE, FISHERY, AGROFORESTRY,
34 HIGH-VALUE COMMERCIAL CROPS, AND FOREST
35 PLANTATIONS in order to address insurance needs of the target
36 sector and to do and perform acts and things and to exercise all the
37 general powers conferred by law upon the Corporation as are

1 incidental or conducive to the attainment of the objectives of the
2 Corporation.”

3
4 **SECTION 3.** Section 5 of Presidential Decree No. 1467, as amended, is hereby
5 further amended to read as follows:

6 “SEC. 5 Rate of Premium and its Sharing. – The rate of premium,
7 as well as the allocated sharing thereof [by the] OF farmers,
8 FISHERFOLK, [the] lending institutions, the Government of the Republic
9 of the Philippines (herein called the Government) and other parties, shall be
10 determined by the Board of Directors of the Corporation: *Provided*, That
11 the share of the Government in the premium cost in the form of premium
12 subsidy, shall be limited to subsistence farmers AND FISHERFOLK:
13 *Provided, however*, That each of these subsistence farmers is cultivating not
14 more than seven (7) hectares OF FARMLANDS AND EACH
15 FISHERFOLK IS CULTIVATING NOT MORE THAN FIVE (5)
16 HECTARES OF THE FISHPOND, SEAWEED, OYSTER OR MUSSEL
17 FARM by themselves or with the help of the labor of the members of their
18 households or hired labor, the premium rate and sharing to be determined
19 by the Board of Directors subject to approval by the President of the
20 Philippines: *Provided, further*, That the premium share of the subsistence
21 farmer OR FISHERFOLK shall be reasonably affordable by him: *Provided*,
22 *furthermore*, That the Government shall share in the premium cost only in
23 insurance coverage against unforeseen and unavoidable risks such as, but
24 not limited to typhoons, droughts, RAINFALL, outbreaks of pests and
25 diseases: *Provided, finally*, That premium subsidy and/or insurance benefits
26 shall upon the accumulation of surplus funds, be increased to such amount
27 as may be determined by the Board taking into consideration that the
28 Corporation has been established not only for profit but mainly to help the
29 insured in their direst hours of need.”

30
31
32 **SECTION 4.** Subsections 8.1, 8.3, 8.4.1, 8.4.3, and 8.5 of Section 8 of Presidential
33 Decree No. 1467, as amended, are hereby further amended to read as follows:

34 “SEC. 8. Capital Stock. -

35 8.1. The authorized capital stock of the Corporation is TEN
36 BILLION PESOS (P10,000,000,000.00) [Two billion pesos

(P2,000,000,000)] divided into SEVE NTY-FIVE MILLION (75,000,000) [Fifteen Million (15,000,000)] common shares with a par value of One hundred pesos (P100.00) each share, which shall be fully subscribed by the Government and TWENTY-FIVE MILLION (25,000,000) [Five Million (5,000,000)] preferred shares with a par value of One hundred pesos (P100.00) per share which shall have the features as provided in Section 8.4 hereof and shall be issued in accordance with the provisions of Section 8.5 hereof.

x x x

8.3 The additional common capital stock of SIX BILLION PESOS (P6,000,000,000.00) [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.

8.4 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:

8.4.1 Preferred as to dividends at a minimum of ONE AND ONE-HALF PERCENT (1.5%) OR THE PREVAILING 360-DAY TREASURY BILL RATE AT THE TIME OF DECLARATION OF DIVIDENDS, WHICHEVER IS HIGHER [six percent (6%)].

x x x

8.4.3 NON-Participating;

x x x

8.5 AT LEAST FIVE HUNDRED MILLION PESOS (P500,000,000.00) OF PREFERRED SHARES SHALL BE SUBSCRIBED AND PAID FOR BY THE LAND BANK OF THE PHILIPPINES. THE BALANCE OF the preferred shares may be available for sale or to subscription by the general public.”

SECTION 5. Section 8-A of Presidential Decree No. 1467, as amended, is hereby amended, to read as follows:

1 “SEC. 8-A. RESERVE FUND FOR CATASTROPHIC LOSSES. -

2 A state reserve fund for catastrophic losses in the amount of Five Hundred
3 Million Pesos (P500,000,000.00) shall be created exclusively to answer for
4 the proportion of all losses in excess of risk (pure) premium under the
5 Corporation’s Crop Insurance Program for small farmers AND
6 FISHERFOLK. THE FUND MAY BE INCREASED SUBJECT TO THE
7 APPROVAL OF THE PRESIDENT. The Fund shall be administered by a
8 government financial institution to be designated by the Corporation’s
9 Board of Directors. Such sum as may be necessary for the purpose shall be
10 funded by the National Government through the annual General
11 Appropriations Act starting the calendar year immediately following the
12 approval of this Act and every year thereafter until the full amount is
13 completed. The mechanics of claims against the Fund and to what extent
14 the Fund shall be liable shall be determined jointly by the financial
15 institution administering the Fund, subject to the approval by the President.”

16 **SECTION. 6.** Subsection 9.1 of Section 9 of Presidential Decree No. 1467, as
17 amended, is hereby further amended, to read as follows:

18 “SEC. 9. Board of Directors. -

19 9.1. The powers of the Corporation shall be vested in and exercised
20 by a Board of Directors now composed of NINE (9) members and
21 made up of the following: the President of the Land Bank of the
22 Philippines (LBP), the President of the Corporation, the
23 SECRETARY OF THE DEPARTMENT OF AGRICULTURE
24 (DA), Executive Director of the Agricultural Credit Policy Council
25 (ACPC), THE COMMISSIONER OF THE INSURANCE
26 COMMISSION (IC), a representative from the private insurance
27 industry to be nominated by the Secretary of Finance and three (3)
28 representatives from the subsistence farmers sector, preferably
29 representing agrarian reform beneficiaries/cooperatives/
30 associations coming from Luzon, Visayas, and Mindanao, who shall
31 be selected and nominated by the different farmers organizations
32 and/or cooperatives. The respective nominees of the private
33 insurance industry and the farmer’s sector shall be submitted to and
34 appointed by the President. The chairman of the Board of Directors
35 shall be appointed by the President from among the members of the
36 Board of Directors. The President of the Corporation shall also be

1 appointed by the President and shall be ex-officio vice chairman
2 who shall assist the chairman and act in his stead in case of absence
3 or incapacity. In case of absence or incapacity of both the chairman
4 and the vice chairman, the Board of Directors shall designate a
5 temporary chairman from among its members. Except for the
6 President of the LBP, the SECRETARY OF THE DA, the Executive
7 Director of the Agricultural Credit Policy Council (ACPC)], THE
8 COMMISSIONER OF THE INSURANCE COMMISSION, all
9 members of the Board of Directors, including the President of the
10 Corporation, shall be appointed by the President within a reasonable
11 period of time after the approval of this Act.”

12 **SECTION 7.** Section 17-A B of Presidential Decree No. 1467, as amended, is
13 hereby further amended, to read as follows:

14 **SECTION 17-A. *Penal Provision*** – Any person who through malfeasance,
15 misfeasance or nonfeasance allows a spurious claim to be paid, including
16 the claim himself, shall, upon final conviction, be punished by
17 imprisonment of not less than [one (1) year] **THREE (3) YEARS** but not
18 more than [six (6)] **EIGHT (8)** years or a fine of not less than [Fifty]
19 **ONE HUNDRED** thousand (**P100, 000**) [P 50,000] but not more then [
20 five] **SIX** hundred thousand pesos (**P600, 000**) [P 500,00] or both at the
21 discretion of the court. The PCIC personnel who allowed the commission
22 of the offense shall, in addition, be dismissed from office, and forfeit all
23 privileges and benefits which may accrue to him.

24 **SECTION 8. *Separability Clause***.– If any provision or part hereof is held
25 unconstitutional or invalid, the other provisions not affected shall remain in force and
26 effect.

27 **SECTION 9. *Repealing Clause***.– All laws, executive orders, and other issuances
28 or parts thereof inconsistent with this Act are hereby repealed or modified accordingly.

29 **SECTION 10. *Effectivity Clause***. - This Act shall take effect fifteen (15) days
30 after its publication in the *Official Gazette* or in two (2) national newspaper of general
31 circulation.

Approved.