



Office of the President of the Philippines
NATIONAL ANTI-POVERTY COMMISSION

MICROFINANCE INDUSTRY ADVISORY

on

***Disclosure of Financial Charges in the Provision of Loans/Credit
and Provision of Insurance***

ALL CONCERNED

Heads, Microfinance Institutions

Other Entities Providing Microfinance Services

21 November 2005

Pursuant to the Social Reform and Poverty Alleviation Act of 1997 (Republic Act 8425), the National Anti-Poverty Commission (NAPC), an agency under the Office of the President, is mandated to coordinate, oversee and monitor the implementation of poverty reduction policies and programs of the government, particularly in strengthening the Philippines' microfinance industry. Section 13 of the law stipulates that *"the programs and implementing mechanisms of the Social Reform Agenda's Flagship Program on Credit shall be integrated, adopted and further enhanced to effectively support the objectives of RA 8425 along the following thrusts:*

- (1) Development of a policy environment, especially in the area of savings generation, supportive of basic sector initiatives dedicated to serving the needs of the poor in terms of microfinance services;*
- (2) Rationalization of existing government programs for credit and guarantee;*
- (3) Utilization of existing government financial entities for the provision of microfinance products and services for the poor; and*
- (4) Promotion of mechanisms necessary for the implementation of microfinance services, including indigenous microfinance practices."*

In line with the objective of establishing an enabling environment for microfinance, the NAPC is issuing this Industry Advisory to ensure that sound, viable and sustainable microfinance programs and practices are observed among microfinance institutions and other entities providing microfinance services and other stakeholders in the performance of their financial intermediation functions, in support of the social reform agenda.

I. Disclosure of Financial Charges in the Provision of Loans/Credit

This Advisory aims to advocate and inform microfinance institutions and other entities providing microfinance services of the requirement to disclose financial costs and other charges in connection with the provision of loans/credits to the clients. As stipulated under the Truth in Lending Act (Republic Act 3765), all creditors and providers of loans, including credit-granting NGOs, are mandated, among others, to fully disclose in writing the following information to their borrowers/clients/members:

- the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;
- the total amount to be financed;
- the finance charge expressed in terms of pesos and centavos; and
- the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

II. Provision of Insurance

This Advisory aims to advocate and inform microfinance institutions and other entities providing microfinance services that the sale of insurance products is a regulated activity. Under the Insurance Code of the Philippines, MFIs and other entities providing insurance services are required to obtain a license as an insurance provider such as a mutual benefit association (MBA) from the Insurance Commission before they can operate as such.

Under the Insurance Code, any organization or association may be granted license to operate as a mutual benefit association to provide any of the following insurance services:

- a. paying sick benefits to members
- b. furnishing financial support to members while out of employment
- c. paying to relatives of deceased members of fixed or any sum of money (irrespective of whether such aim or purpose is carried out by means of fixed dues or assessments collected regularly from the members)
- d. paying accident benefits
- e. paying life insurance benefits or life insurance benefits

Attached, for easy reference, are the pro-forma copy of the application for license as an MBA and the minimum requirements needed for licensing.

The NAPC, together with the National Credit Council (NCC) of the Department of Finance (DOF), the Cooperative Development Authority (CDA), the Bangko Sentral ng Pilipinas (BSP), the Philippine Insurance Commission, and the Government as a whole, enjoins and encourages all MFIs and other entities providing microfinance services to observe and adopt the provisions of the Truth in Lending Act and Insurance Code as noncompliance of this law is punishable by fine or imprisonment of six months, or both, at the discretion of the court.

Duly accomplished application forms can be submitted to the Licensing Division of the Insurance Commission, located at the following address:

1071 United Nations Avenue, Manila, Philippines
P.O. Box 3589, Manila
Fax No. : (632) 522-1434
Trunk line: (632) 523-8462 up to 70

Please be guided accordingly.

(Original Signed)

SECRETARY DATU ZAMZAMIN L. AMPATUAN
Lead Convenor