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[REPUBLIC ACT NO. 10607]

AN ACT STRENGTHENING THE INSURANCE INDUSTRY, FURTHER AMENDING PRESIDENTIAL DECREE NO. 612, OTHERWISE KNOWN AS "THE INSURANCE CODE", AS AMENDED BY PRESIDENTIAL DECREE NOS. 1141, 1280, 1455, 1460, 1814 AND 1981, AND BATAS PAMBANSA BLG. 874, AND FOR OTHER PURPOSES

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

SECTION 1. Presidential Decree No. 612, as amended, is hereby further amended to read as follows:

"GENERAL PROVISIONS

"SECTION 1. This Decree shall be known as 'The Insurance Code'.

"SEC. 2. Whenever used in this Code, the following terms shall have the respective meanings hereinafter set forth or indicated, unless the context otherwise requires:

"(a) A *contract of insurance* is an agreement whereby one undertakes for a consideration to indemnify another against loss, damage or liability arising from an unknown or contingent event.

"A contract of suretyship shall be deemed to be an insurance contract, within the meaning of this Code, only if made by a surety who or which, as such, is doing an insurance business as hereinafter provided.

"(b) The term *doing an insurance business* or *transacting an insurance business*, within the meaning of this Code, shall include:

"(1) Making or proposing to make, as insurer, any insurance contract;

"(2) Making or proposing to make, as surety, any contract of suretyship as a vocation and not as merely incidental to any other legitimate business or activity of the surety;

"(3) Doing any kind of business, including a reinsurance business, specifically recognized as constituting the doing of an insurance business within the meaning of this Code;

"(4) Doing or proposing to do any business in substance equivalent to any of the foregoing in a manner designed to evade the provisions of this Code.

"In the application of the provisions of this Code, the fact that no profit is derived from the making of insurance contracts, agreements or transactions or that no separate or direct consideration is received therefor, shall not be deemed conclusive to show that the making thereof does not constitute the doing or transacting of an insurance business.

"(c) As used in this Code, the term *Commissioner* means the *Insurance Commissioner*.

"CHAPTER I

"THE CONTRACT OF INSURANCE

"TITLE 1

"WHAT MAY BE INSURED

"SEC. 3. Any contingent or unknown event, whether past or future, which may damnify a person having an insurable interest, or create a liability against him, may be insured against, subject to the provisions of this chapter.

"The consent of the spouse is not necessary for the validity of an insurance policy taken out by a married person on his or her life or that of his or her children.

"All rights, title and interest in the policy of insurance taken out by an original owner on the life or health of the person insured shall automatically vest in the latter upon the death of the original owner, unless otherwise provided for in the policy.

"SEC. 4. The preceding section does not authorize an insurance for or against the drawing of any lottery, or for or against any chance or ticket in a lottery drawing a prize.

"SEC. 5. All kinds of insurance are subject to the provisions of this chapter so far as the provisions can apply.

"TITLE 2

"PARTIES TO THE CONTRACT

"SEC. 6. Every corporation, partnership, or association, duly authorized to transact insurance business as elsewhere provided in this Code, may be an insurer.

"SEC. 7. Anyone except a public enemy may be insured.

"SEC. 8. Unless the policy otherwise provides, where a mortgagor of property effects insurance in his own name providing that the loss shall be payable to the mortgagee, or assigns a policy of insurance to a mortgagee, the insurance is deemed to be upon the interest of the mortgagor, who does not cease to be a party to the original contract, and any act of his, prior to the loss, which would otherwise avoid the insurance, will have the same effect, although the property is in the hands of the mortgagee, but any act which, under the contract of insurance, is to be performed by the mortgagor, may be performed by the mortgagee therein named, with the same effect as if it had been performed by the mortgagor.

"SEC. 9. If an insurer assents to the transfer of an insurance from a mortgagor to a mortgagee, and, at the time of his assent, imposes further obligations on the assignee, making a new contract with him, the acts of the mortgagor cannot affect the rights of said assignee.

"TITLE 3

"INSURABLE INTEREST

"SEC. 10. Every person has an insurable interest in the life and health:

"(a) Of himself, of his spouse and of his children;

"(b) Of any person on whom he depends wholly or in part for education or support, or in whom he has a pecuniary interest;

"(c) Of any person under a legal obligation to him for the payment of money, or respecting property or services, of which death or illness might delay or prevent the performance; and

"(d) Of any person upon whose life any estate or interest vested in him depends.

"SEC. 11. The insured shall have the right to change the beneficiary he designated in the policy, unless he has expressly waived this right in said policy. Notwithstanding the foregoing, in the event the insured does not change the beneficiary during his lifetime, the designation shall be deemed irrevocable.

"SEC. 12. The interest of a beneficiary in a life insurance policy shall be forfeited when the beneficiary is the principal, accomplice, or accessory in willfully bringing about the death of the insured. In such a case, the share forfeited shall pass on to the other beneficiaries, unless otherwise disqualified. In the absence of other beneficiaries, the proceeds shall be paid in accordance with the policy contract. If the policy contract is silent, the proceeds shall be paid to the estate of the insured.

"SEC. 13. Every interest in property, whether real or personal, or any relation thereto, or liability in respect thereof, of such nature that a contemplated peril might directly damnify the insured, is an insurable interest.

"SEC. 14. An insurable interest in property may consist in:

"(a) An existing interest;

"(b) An inchoate interest founded on an existing interest; or

"(c) An expectancy, coupled with an existing interest in that out of which the expectancy arises.

"SEC. 15. A carrier or depository of any kind has an insurable interest in a thing held by him as such, to the extent of his liability but not to exceed the value thereof.

"SEC. 16. A mere contingent or expectant interest in any thing, not founded on an actual right to the thing, nor upon any valid contract for it, is not insurable.

"SEC. 17. The measure of an insurable interest in property is the extent to which the insured might be damnified by loss or injury thereof.

"SEC. 18. No contract or policy of insurance on property shall be enforceable except for the benefit of some person having an insurable interest in the property insured.

"SEC. 19. An interest in property insured must exist when the insurance takes effect, and when the loss occurs, but need not exist in the meantime; and interest in the life or health of a person insured must exist when the insurance takes effect, but need not exist thereafter or when the loss occurs.

"SEC. 20. Except in the cases specified in the next four sections, and in the cases of life, accident, and health insurance, a change of interest in any part of a thing insured unaccompanied by a corresponding change of interest in the insurance, suspends the insurance to an equivalent extent, until the interest in the thing and the interest in the insurance are vested in the same person.

"SEC. 21. A change of interest in a thing insured, after the occurrence of an injury which results in a loss, does not affect the right of the insured to indemnity for the loss.

"SEC. 22. A change of interest in one or more of several distinct things, separately insured by one policy, does not avoid the insurance as to the others.

"SEC. 23. A change of interest, by will or succession, on the death of the insured, does not avoid an insurance; and his interest in the insurance passes to the person taking his interest in the thing insured.

"SEC. 24. A transfer of interest by one of several partners, joint owners, or owners in common, who are jointly insured, to the others, does not avoid an insurance even though it has been agreed that the insurance shall cease upon an alienation of the thing insured.

"SEC. 25. Every stipulation in a policy of insurance for the payment of loss whether the person insured has or has not any interest in the property insured, or that the policy shall be received as proof of such interest, and every policy executed by way of gaming or wagering, is void.

"TITLE 4

"CONCEALMENT

"SEC. 26. A neglect to communicate that which a party knows and ought to communicate, is called a concealment.

"SEC. 27. A concealment whether intentional or unintentional entitles the injured party to rescind a contract of insurance.

"SEC. 28. Each party to a contract of insurance must communicate to the other, in good faith, all facts within his knowledge which are material to the contract and as to which he makes no warranty, and which the other has not the means of ascertaining.

"SEC. 29. An intentional and fraudulent omission, on the part of one insured, to communicate information of matters proving or tending to prove the falsity of a warranty, entitles the insurer to rescind.

"SEC. 30. Neither party to a contract of insurance is bound to communicate information of the matters following, except in answer to the inquiries of the other:

"(a) Those which the other knows;

"(b) Those which, in the exercise of ordinary care, the other ought to know, and of which the former has no reason to suppose him ignorant;

"(c) Those of which the other waives communication;

"(d) Those which prove or tend to prove the existence of a risk excluded by a warranty, and which are not otherwise material; and

"(e) Those which relate to a risk excepted from the policy and which are not otherwise material.

"SEC. 31. Materiality is to be determined not by the event, but solely by the probable and reasonable influence of the facts upon the party to whom the communication is due, in forming his estimate of the disadvantages of the proposed contract, or in making his inquiries.

"SEC. 32. Each party to a contract of insurance is bound to know all the general causes which are open to his inquiry, equally with that of the other, and which may affect the political or material perils contemplated; and all general usages of trade.

"SEC. 33. The right to information of material facts may be waived, either by the terms of insurance or by neglect to make inquiry as to such facts, where they are distinctly implied in other facts of which information is communicated.

"SEC. 34. Information of the nature or amount of the interest of one insured need not be communicated unless in answer to an inquiry, except as prescribed by Section 51.

"SEC. 35. Neither party to a contract of insurance is bound to communicate, even upon inquiry, information of his own judgment upon the matters in question.

"TITLE 5

"REPRESENTATION

"SEC. 36. A representation may be oral or written.

"SEC. 37. A representation may be made at the time of, or before, issuance of the policy.

"SEC. 38. The language of a representation is to be interpreted by the same rules as the language of contracts in general.

"SEC. 39. A representation as to the future is to be deemed a promise, unless it appears that it was merely a statement of belief or expectation.

"SEC. 40. A representation cannot qualify an express provision in a contract of insurance, but it may qualify an implied warranty.

"SEC. 41. A representation may be altered or withdrawn before the insurance is effected, but not afterwards.

"SEC. 42. A representation must be presumed to refer to the date on which the contract goes into effect.

"SEC. 43. When a person insured has no personal knowledge of a fact, he may nevertheless repeat information which he has upon the subject, and which he believes to be true, with the explanation that he does so on the information of others; or he may submit the information, in its whole extent, to the insurer; and in neither case is he responsible for its truth, unless it proceeds from an agent of the insured, whose duty it is to give the information.

"SEC. 44. A representation is to be deemed false when the facts fail to correspond with its assertions or stipulations.

"SEC. 45. If a representation is false in a material point, whether affirmative or promissory, the injured party is entitled to rescind the contract from the time when the representation becomes false.

"SEC. 46. The materiality of a representation is determined by the same rules as the materiality of a concealment.

"SEC. 47. The provisions of this chapter apply as well to a modification of a contract of insurance as to its original formation.

"SEC. 48. Whenever a right to rescind a contract of insurance is given to the insurer by any provision of this chapter, such right must be exercised previous to the commencement of an action on the contract.

"After a policy of life insurance made payable on the death of the insured shall have been in force during the lifetime of the insured for a period of two (2) years from the date of its issue or of its last reinstatement, the insurer cannot prove that the policy is void *ab initio* or is rescindable by reason of the fraudulent concealment or misrepresentation of the insured or his agent.

"TITLE 6

"THE POLICY

"SEC. 49. The written instrument in which a contract of insurance is set forth, is called a policy of insurance.

"SEC. 50. The policy shall be in printed form which may contain blank spaces; and any word, phrase, clause, mark, sign, symbol, signature, number, or word necessary to complete the contract of insurance shall be written on the blank spaces provided therein.

"Any rider, clause, warranty or endorsement purporting to be part of the contract of insurance and which is pasted or attached to said policy is not binding on the insured, unless the descriptive title or name of the rider, clause, warranty or endorsement is also mentioned and written on the blank spaces provided in the policy.

"Unless applied for by the insured or owner, any rider, clause, warranty or endorsement issued after the original policy shall be countersigned by the insured or owner, which countersignature shall be taken as his agreement to the contents of such rider, clause, warranty or endorsement.

"Notwithstanding the foregoing, the policy may be in electronic form subject to the pertinent provisions of Republic Act No. 8792, otherwise known as the 'Electronic Commerce Act' and to such rules and regulations as may be prescribed by the Commissioner.

"SEC. 51. A policy of insurance must specify:

"(a) The parties between whom the contract is made;

"(b) The amount to be insured except in the cases of open or running policies;

"(c) The premium, or if the insurance is of a character where the exact premium is only determinable upon the termination of the contract, a statement of the basis and rates upon which the final premium is to be determined;

"(d) The property or life insured;

"(e) The interest of the insured in property insured, if he is not the absolute owner thereof;

"(f) The risks insured against; and

"(g) The period during which the insurance is to continue.

"SEC. 52. Cover notes may be issued to bind insurance temporarily pending the issuance of the policy. Within sixty (60) days after issue of a cover note, a policy shall be issued in lieu thereof, including within its terms the identical insurance bound under the cover note and the premium therefor.

"Cover notes may be extended or renewed beyond such sixty (60) days with the written approval of the Commissioner if he determines that such extension is not contrary to and is not for the purpose of violating any provisions of this Code. The Commissioner may promulgate rules and regulations governing such extensions for the purpose of preventing such violations and may by such rules and regulations dispense with the requirement of written approval by him in the case of extension in compliance with such rules and regulations.

"SEC. 53. The insurance proceeds shall be applied exclusively to the proper interest of the person in whose name or for whose benefit it is made unless otherwise specified in the policy.

"SEC. 54. When an insurance contract is executed with an agent or trustee as the insured, the fact that his principal or beneficiary is the real party in interest may be indicated by describing the insured as agent or trustee, or by other general words in the policy.

"SEC. 55. To render an insurance effected by one partner or part-owner, applicable to the interest of his co-partners or other part-owners, it is necessary that the terms of the policy should be such as are applicable to the joint or common interest.

"SEC. 56. When the description of the insured in a policy is so general that it may comprehend any person or any class of persons, only he who can show that it was intended to include him, can claim the benefit of the policy.

"SEC. 57. A policy may be so framed that it will inure to the benefit of whomsoever, during the continuance of the risk, may become the owner of the interest insured.

"SEC. 58. The mere transfer of a thing insured does not transfer the policy, but suspends it until the same person becomes the owner of both the policy and the thing insured.

"SEC. 59. A policy is either open, valued or running.

"SEC. 60. An open policy is one in which the value of the thing insured is not agreed upon, and the amount of the insurance merely represents the insurer's maximum liability. The value of such thing insured shall be ascertained at the time of the loss.

"SEC. 61. A valued policy is one which expresses on its face an agreement that the thing insured shall be valued at a specific sum.

"SEC. 62. A running policy is one which contemplates successive insurances, and which provides that the object of the policy may be from time to time defined, especially as to the subjects of insurance, by additional statements or indorsements.

"SEC. 63. A condition, stipulation, or agreement in any policy of insurance, limiting the time for commencing an action thereunder to a period of less than one (1) year from the time when the cause of action accrues, is void.

"SEC. 64. No policy of insurance other than life shall be cancelled by the insurer except upon prior notice thereof to the insured, and no notice of cancellation shall be effective unless it is based on the occurrence, after the effective date of the policy, of one or more of the following:

"(a) Nonpayment of premium;

"(b) Conviction of a crime arising out of acts increasing the hazard insured against;

"(c) Discovery of fraud or material misrepresentation;

"(d) Discovery of willful or reckless acts or omissions increasing the hazard insured against;

"(e) Physical changes in the property insured which result in the property becoming uninsurable;

"(f) Discovery of other insurance coverage that makes the total insurance in excess of the value of the property insured; or

"(g) A determination by the Commissioner that the continuation of the policy would violate or would place the insurer in violation of this Code.

"SEC. 65. All notices of cancellation mentioned in the preceding section shall be in writing, mailed or delivered to the named insured at the address shown in the policy, or to his broker provided the broker is authorized in writing by the policy owner to receive the notice of cancellation on his behalf, and shall state:

"(a) Which of the grounds set forth in Section 64 is relied upon; and

"(b) That, upon written request of the named insured, the insurer will furnish the facts on which the cancellation is based.

"SEC. 66. In case of insurance other than life, unless the insurer at least forty-five (45) days in advance of the end of the policy period mails or delivers to the named insured at the address shown in the policy notice of its intention not to renew the policy or to condition its renewal upon reduction of limits or elimination of coverages, the named insured shall be entitled to renew the policy upon payment of the premium due on the effective date of the renewal. Any policy written for a term of less than one (1) year shall be considered as if written for a term of one (1) year. Any policy written for a term longer than one (1) year or any policy with no fixed expiration date shall be considered as if written for successive policy periods or terms of one (1) year.

"TITLE 7

"WARRANTIES

"SEC. 67. A warranty is either expressed or implied.

"SEC. 68. A warranty may relate to the past, the present, the future, or to any or all of these.

"SEC. 69. No particular form of words is necessary to create a warranty.

"SEC. 70. Without prejudice to Section 51, every express warranty, made at or before the execution of a policy, must be contained in the policy itself, or in another instrument signed by the insured and referred to in the policy as making a part of it.

"SEC. 71. A statement in a policy, of a matter relating to the person or thing insured, or to the risk, as fact, is an express warranty thereof.

"SEC. 72. A statement in a policy, which imparts that it is intended to do or not to do a thing which materially affects the risk, is a warranty that such act or omission shall take place.

"SEC. 73. When, before the time arrives for the performance of a warranty relating to the future, a loss insured against happens, or performance becomes unlawful at the place of the contract, or impossible, the omission to fulfill the warranty does not avoid the policy.

"SEC. 74. The violation of a material warranty, or other material provision of a policy, on the part of either party thereto, entitles the other to rescind.

"SEC. 75. A policy may declare that a violation of specified provisions thereof shall avoid it, otherwise the breach of an immaterial provision does not avoid the policy.

"SEC. 76. A breach of warranty without fraud merely exonerates an insurer from the time that it occurs, or where it is broken in its inception, prevents the policy from attaching to the risk.

"TITLE 8

"PREMIUM

"SEC. 77. An insurer is entitled to payment of the premium as soon as the thing insured is exposed to the peril insured against. Notwithstanding any agreement to the contrary, no policy or contract of insurance issued by an insurance company is valid and binding unless and until the premium thereof has been paid, except in the case of a life or an industrial life policy whenever the grace period provision applies, or whenever under the broker and agency agreements with duly licensed intermediaries, a ninety (90)-day credit extension is given. No credit extension to a duly licensed intermediary should exceed ninety (90) days from date of issuance of the policy.

"SEC. 78. Employees of the Republic of the Philippines, including its political subdivisions and instrumentalities, and government-owned or -controlled corporations, may pay their insurance premiums and loan obligations through salary deduction: *Provided*, That the treasurer, cashier,

paymaster or official of the entity employing the government employee is authorized, notwithstanding the provisions of any existing law, rules and regulations to the contrary, to make deductions from the salary, wage or income of the latter pursuant to the agreement between the insurer and the government employee and to remit such deductions to the insurer concerned, and collect such reasonable fee for its services.

"SEC. 79. An acknowledgment in a policy or contract of insurance or the receipt of premium is conclusive evidence of its payment, so far as to make the policy binding, notwithstanding any stipulation therein that it shall not be binding until the premium is actually paid.

"SEC. 80. A person insured is entitled to a return of premium, as follows:

"(a) To the whole premium if no part of his interest in the thing insured be exposed to any of the perils insured against;

"(b) Where the insurance is made for a definite period of time and the insured surrenders his policy, to such portion of the premium as corresponds with the unexpired time, at a pro rata rate, unless a short period rate has been agreed upon and appears on the face of the policy, after deducting from the whole premium any claim for loss or damage under the policy which has previously accrued: *Provided*, That no holder of a life insurance policy may avail himself of the privileges of this paragraph without sufficient cause as otherwise provided by law.

"SEC. 81. If a peril insured against has existed, and the insurer has been liable for any period, however short, the insured is not entitled to return of premiums, so far as that particular risk is concerned.

"SEC. 82. A person insured is entitled to a return of the premium when the contract is voidable, and subsequently annulled under the provisions of

the Civil Code; or on account of the fraud or misrepresentation of the insurer, or of his agent, or on account of facts, or the existence of which the insured was ignorant of without his fault; or when by any default of the insured other than actual fraud, the insurer never incurred any liability under the policy.

"A person insured is not entitled to a return of premium if the policy is annulled, rescinded or if a claim is denied by reason of fraud.

"SEC. 83. In case of an over insurance by several insurers other than life, the insured is entitled to a ratable return of the premium, proportioned to the amount by which the aggregate sum insured in all the policies exceeds the insurable value of the thing at risk.

"SEC. 84. An insurer may contract and accept payments, in addition to regular premium, for the purpose of paying future premiums on the policy or to increase the benefits thereof.

"TITLE 9

"LOSS

"SEC. 85. An agreement not to transfer the claim of the insured against the insurer after the loss has happened, is void if made before the loss except as otherwise provided in the case of life insurance.

"SEC. 86. Unless otherwise provided by the policy, an insurer is liable for a loss of which a peril insured against was the proximate cause, although a peril not contemplated by the contract may have been a remote cause of the loss; but he is not liable for a loss of which the peril insured against was only a remote cause.

"SEC. 87. An insurer is liable where the thing insured is rescued from a peril insured against that would otherwise have caused a loss, if, in the course of such rescue, the thing is exposed to a peril not

insured against, which permanently deprives the insured of its possession, in whole or in part; or where a loss is caused by efforts to rescue the thing insured from a peril insured against.

"SEC. 88. Where a peril is especially excepted in a contract of insurance, a loss, which would not have occurred but for such peril, is thereby excepted although the immediate cause of the loss was a peril which was not excepted.

"SEC. 89. An insurer is not liable for a loss caused by the willful act or through the connivance of the insured; but he is not exonerated by the negligence of the insured, or of the insurance agents or others.

"TITLE 10

"NOTICE OF LOSS

"SEC. 90. In case of loss upon an insurance against fire, an insurer is exonerated, if written notice thereof be not given to him by an insured, or some person entitled to the benefit of the insurance, without unnecessary delay. For other non-life insurance, the Commissioner may specify the period for the submission of the notice of loss.

"SEC. 91. When a preliminary proof of loss is required by a policy, the insured is not bound to give such proof as would be necessary in a court of justice; but it is sufficient for him to give the best evidence which he has in his power at the time.

"SEC. 92. All defects in a notice of loss, or in preliminary proof thereof, which the insured might remedy, and which the insurer omits to specify to him, without unnecessary delay, as grounds of objection, are waived.

"SEC. 93. Delay in the presentation to an insurer of notice or proof of loss is waived if caused by any act of him, or if he omits to take objection promptly and specifically upon that ground.

"SEC. 94. If the policy requires, by way of preliminary proof of loss, the certificate or testimony of a person other than the insured, it is sufficient for the insured to use reasonable diligence to procure it, and in case of the refusal of such person to give it, then to furnish reasonable evidence to the insurer that such refusal was not induced by any just grounds of disbelief in the facts necessary to be certified or testified.

"TITLE 11

"DOUBLE INSURANCE

"SEC. 95. A double insurance exists where the same person is insured by several insurers separately in respect to the same subject and interest.

"SEC. 96. Where the insured in a policy other than life is overinsured by double insurance:

"(a) The insured, unless the policy otherwise provides, may claim payment from the insurers in such order as he may select, up to the amount for which the insurers are severally liable under their respective contracts;

"(b) Where the policy under which the insured claims is a valued policy, any sum received by him under any other policy shall be deducted from the value of the policy without regard to the actual value of the subject matter insured;

"(c) Where the policy under which the insured claims is an unvalued policy, any sum received by him under any policy shall be deducted against the full insurable value, for any sum received by him under any policy;

"(d) Where the insured receives any sum in excess of the valuation in the case of valued policies, or of the insurable value in the case of unvalued policies, he must hold such sum in trust for the insurers, according to their right of contribution among themselves;

"(e) Each insurer is bound, as between himself and the other insurers, to contribute ratably to the loss in proportion to the amount for which he is liable under his contract.

"TITLE 12

"REINSURANCE

"SEC. 97. A contract of reinsurance is one by which an insurer procures a third person to insure him against loss or liability by reason of such original insurance.

"SEC. 98. Where an insurer obtains reinsurance, except under automatic reinsurance treaties, he must communicate all the representations of the original insured, and also all the knowledge and information he possesses, whether previously or subsequently acquired, which are material to the risk.

"SEC. 99. A reinsurance is presumed to be a contract of indemnity against liability, and not merely against damage.

"SEC. 100. The original insured has no interest in a contract of reinsurance.

"CHAPTER II

"CLASSES OF INSURANCE

"TITLE I

"MARINE INSURANCE

"SUB-TITLE 1-A

"DEFINITION

"SEC. 101. Marine Insurance includes:

"(a) Insurance against loss of or damage to:

"(1) Vessels, craft, aircraft, vehicles, goods, freights, cargoes, merchandise, effects, disbursements, profits, moneys, securities, choses in action, instruments of debts, valuable papers, bottomry, and respondentia interests and all other

kinds of property and interests therein, in respect to, appertaining to or in connection with any and all risks or perils of navigation, transit or transportation, or while being assembled, packed, crated, baled, compressed or similarly prepared for shipment or while awaiting shipment, or during any delays, storage, transshipment, or reshipment incident thereto, including war risks, marine builder's risks, and all personal property floater risks;

"(2) Person or property in connection with or appertaining to a marine, inland marine, transit or transportation insurance, including liability for loss of or damage arising out of or in connection with the construction, repair, operation, maintenance or use of the subject matter of such insurance (but not including life insurance or surety bonds nor insurance against loss by reason of bodily injury to any person arising out of ownership, maintenance, or use of automobiles);

"(3) Precious stones, jewels, jewelry, precious metals, whether in course of transportation or otherwise; and

"(4) Bridges, tunnels and other instrumentalities of transportation and communication (excluding buildings, their furniture and furnishings, fixed contents and supplies held in storage); piers, wharves, docks and slips, and other aids to navigation and transportation, including dry docks and marine railways, dams and appurtenant facilities for the control of waterways.

"(b) *Marine protection and indemnity insurance*, meaning insurance against, or against legal liability of the insured for loss, damage, or expense incident to ownership, operation, chartering, maintenance, use, repair, or construction of any vessel, craft or instrumentality in use of ocean or inland waterways, including liability of the insured for personal injury, illness or death or for loss of or damage to the property of another person.

"SUB-TITLE 1-B
"INSURABLE INTEREST

"SEC. 102. The owner of a ship has in all cases an insurable interest in it, even when it has been chartered by one who covenants to pay him its value in case of loss: *Provided*, That in this case the insurer shall be liable for only that part of the loss which the insured cannot recover from the charterer.

"SEC. 103. The insurable interest of the owner of the ship hypothecated by bottomry is only the excess of its value over the amount secured by bottomry.

"SEC. 104. Freightage, in the sense of a policy of marine insurance, signifies all the benefits derived by the owner, either from the chartering of the ship or its employment for the carriage of his own goods or those of others.

"SEC. 105. The owner of a ship has an insurable interest in expected freightage which according to the ordinary and probable course of things he would have earned but for the intervention of a peril insured against or other peril incident to the voyage.

"SEC. 106. The interest mentioned in the last section exists, in case of a charter party, when the ship has broken ground on the chartered voyage. If a price is to be paid for the carriage of goods it exists when they are actually on board, or there is some contract for putting them on board, and both ship and goods are ready for the specified voyage.

"SEC. 107. One who has an interest in the thing from which profits are expected to proceed has an insurable interest in the profits.

"SEC. 108. The charterer of a ship has an insurable interest in it, to the extent that he is liable to be damnified by its loss.

"SUB-TITLE 1-C
"CONCEALMENT

"SEC. 109. In marine insurance, each party is bound to communicate, in addition to what is required by Section 28, all the information which he possesses, material to the risk, except such as is mentioned in Section 30, and to state the exact and whole truth in relation to all matters that he represents, or upon inquiry discloses or assumes to disclose.

"SEC. 110. In marine insurance, information of the belief or expectation of a third person, in reference to a material fact, is material.

"SEC. 111. A person insured by a contract of marine insurance is presumed to have knowledge, at the time of insuring, of a prior loss, if the information might possibly have reached him in the usual mode of transmission and at the usual rate of communication.

"SEC. 112. A concealment in a marine insurance, in respect to any of the following matters, does not vitiate the entire contract, but merely exonerates the insurer from a loss resulting from the risk concealed:

"(a) The national character of the insured;

"(b) The liability of the thing insured to capture and detention;

"(c) The liability to seizure from breach of foreign laws of trade;

"(d) The want of necessary documents; and

"(e) The use of false and simulated papers.

"SUB-TITLE 1-D
"REPRESENTATION

"SEC. 113. If a representation by a person insured by a contract of marine insurance, is intentionally false in any material respect, or in respect of any fact on which the character and nature

of the risk depends, the insurer may rescind the entire contract.

"SEC. 114. The eventual falsity of a representation as to expectation does not, in the absence of fraud, avoid a contract of marine insurance.

"SUB-TITLE 1-E

"IMPLIED WARRANTIES

"SEC. 115. In every marine insurance upon a ship or freight, or freightage, or upon any thing which is the subject of marine insurance, a warranty is implied that the ship is seaworthy.

"SEC. 116. A ship is seaworthy when reasonably fit to perform the service and to encounter the ordinary perils of the voyage contemplated by the parties to the policy.

"SEC. 117. An implied warranty of seaworthiness is complied with if the ship be seaworthy at the time of the commencement of the risk, except in the following cases:

"(a) When the insurance is made for a specified length of time, the implied warranty is not complied with unless the ship be seaworthy at the commencement of every voyage it undertakes during that time;

"(b) When the insurance is upon the cargo which, by the terms of the policy, description of the voyage, or established custom of the trade, is to be transhipped at an intermediate port, the implied warranty is not complied with unless each vessel upon which the cargo is shipped, or transhipped, be seaworthy at the commencement of each particular voyage.

"SEC. 118. A warranty of seaworthiness extends not only to the condition of the structure of the ship itself, but requires that it be properly laden, and provided with a competent master, a sufficient number of competent officers and seamen, and the

requisite appurtenances and equipment, such as ballasts, cables and anchors, cordage and sails, food, water, fuel and lights, and other necessary or proper stores and implements for the voyage.

"SEC. 119. Where different portions of the voyage contemplated by a policy differ in respect to the things requisite to make the ship seaworthy therefor, a warranty of seaworthiness is complied with if, at the commencement of each portion, the ship is seaworthy with-reference to that portion.

"SEC. 120. When the ship becomes unseaworthy during the voyage to which an insurance relates, an unreasonable delay in repairing the defect exonerates the insurer on ship or shipowner's interest from liability from any loss arising therefrom.

"SEC. 121. A ship which is seaworthy for the purpose of an insurance upon the ship may, nevertheless, by reason of being unfitted to receive the cargo, be unseaworthy for the purpose of insurance upon the cargo.

"SEC. 122. Where the nationality or neutrality of a ship or cargo is expressly warranted, it is implied that the ship will carry the requisite documents to show such nationality or neutrality and that it will not carry any documents which cast reasonable suspicion thereon.

"SUB-TITLE 1-F

"THE VOYAGE AND DEVIATION

"SEC. 123. When the voyage contemplated by a marine insurance policy is described by the places of beginning and ending, the voyage insured is one which conforms to the course of sailing fixed by mercantile usage between those places.

"SEC. 124. If the course of sailing is not fixed by mercantile usage, the voyage insured by a marine insurance policy is that way between the places specified, which to a master of ordinary skill and discretion, would mean the most natural, direct and advantageous.

"SEC. 125. Deviation is a departure from the course of the voyage insured, mentioned in the last two (2) sections, or an unreasonable delay in pursuing the voyage or the commencement of an entirely different voyage.

"SEC. 126. A deviation is proper:

"(a) When caused by circumstances over which neither the master nor the owner of the ship has any control;

"(b) When necessary to comply with a warranty, or to avoid a peril, whether or not the peril is insured against;

"(c) When made in good faith, and upon reasonable grounds of belief in its necessity to avoid a peril; or

"(d) When made in good faith, for the purpose of saving human life or relieving another vessel in distress.

"SEC. 127. Every deviation not specified in the last section is improper.

"SEC. 128. An insurer is not liable for any loss happening to the thing insured subsequent to an improper deviation.

"SUB-TITLE I-G

"LOSS

"SEC. 129. A loss may be either total or partial.

"SEC. 130. Every loss which is not total is partial.

"SEC. 131. A total loss may be either actual or constructive.

"SEC. 132. An actual total loss is caused by:

"(a) A total destruction of the thing insured;

"(b) The irretrievable loss of the thing by sinking, or by being broken up;

"(c) Any damage to the thing which renders it valueless to the owner for the purpose for which he held it; or

"(d) Any other event which effectively deprives the owner of the possession, at the port of destination, of the thing insured.

"SEC. 133. A constructive total loss is one which gives to a person insured a right to abandon, under Section 141.

"SEC. 134. An actual loss may be presumed from the continued absence of a ship without being heard of. The length of time which is sufficient to raise this presumption depends on the circumstances of the case.

"SEC. 135. When a ship is prevented, at an intermediate port, from completing the voyage, by the perils insured against, the liability of a marine insurer on the cargo continues after they are thus reshipped.

"Nothing in this section shall prevent an insurer from requiring an additional premium if the hazard be increased by this extension of liability.

"SEC. 136. In addition to the liability mentioned in the last section, a marine insurer is bound for damages, expenses of discharging, storage, reshipment, extra freightage, and all other expenses incurred in saving cargo reshipped pursuant to the last section, up to the amount insured.

"Nothing in this or in the preceding section shall render a marine insurer liable for any amount in excess of the insured value or, if there be none, of the insurable value.

"SEC. 137. Upon an actual total loss, a person insured is entitled to payment without notice of abandonment.

"SEC. 138. Where it has been agreed that an insurance upon a particular thing, or class of things, shall be free from particular average, a marine insurer is not liable for any particular average loss not depriving the insured of the possession, at the port of destination, of the whole of such thing, or class of things, even though it becomes entirely worthless; but such insurer is liable for his proportion of all general average loss assessed upon the thing insured.

"SEC. 139. An insurance confined in terms to an actual loss does not cover a constructive total loss, but covers any loss, which necessarily results in depriving the insured of the possession, at the port of destination, of the entire thing insured.

"SUB-TITLE 1-H

"ABANDONMENT

"SEC. 140. Abandonment, in marine insurance, is the act of the insured by which, after a constructive total loss, he declares the relinquishment to the insurer of his interest in the thing insured.

"SEC. 141. A person insured by a contract of marine insurance may abandon the thing insured, or any particular portion thereof separately valued by the policy, or otherwise separately insured, and recover for a total loss thereof, when the cause of the loss is a peril insured against:

"(a) If more than three-fourths ($\frac{3}{4}$) thereof in value is actually lost, or would have to be expended to recover it from the peril;

"(b) If it is injured to such an extent as to reduce its value more than three-fourths ($\frac{3}{4}$);

"(c) If the thing insured is a ship, and the contemplated voyage cannot be lawfully performed without incurring either an expense to the insured of more than three-fourths ($\frac{3}{4}$) the value of the thing abandoned or a risk which a prudent man would not take under the circumstances; or

"(d) If the thing insured, being cargo or freightage, and the voyage cannot be performed, nor another ship procured by the master, within a reasonable time and with reasonable diligence, to forward the cargo, without incurring the like expense or risk mentioned in the preceding subparagraph. But freightage cannot in any case be abandoned unless the ship is also abandoned.

"SEC. 142. An abandonment must be neither partial nor conditional.

"SEC. 143. An abandonment must be made within a reasonable time after receipt of reliable information of the loss, but where the information is of a doubtful character, the insured is entitled to a reasonable time to make inquiry.

"SEC. 144. Where the information upon which an abandonment has been made proves incorrect, or the thing insured was so far restored when the abandonment was made that there was then in fact no total loss, the abandonment becomes ineffectual.

"SEC. 145. Abandonment is made by giving notice thereof to the insurer, which may be done orally, or in writing: *Provided*, That if the notice be done orally, a written notice of such abandonment shall be submitted within seven (7) days from such oral notice.

"SEC. 146. A notice of abandonment must be explicit, and must specify the particular cause of the abandonment, but need state only enough to show that there is probable cause therefor, and need not be accompanied with proof of interest or of loss.

"SEC. 147. An abandonment can be sustained only upon the cause specified in the notice thereof.

"SEC. 148. An abandonment is equivalent to a transfer by the insured of his interest to the insurer, with all the chances of recovery and indemnity.

"SEC. 149. If a marine insurer pays for a loss as if it were an actual total loss, he is entitled to whatever may remain of the thing insured, or its proceeds or salvage, as if there had been a formal abandonment.

"SEC. 150. Upon an abandonment, acts done in good faith by those who were agents of the insured in respect to the thing insured, subsequent to the loss, are at the risk of the insurer, and for his benefit.

"SEC. 151. Where notice of abandonment is properly given, the rights of the insured are not prejudiced by the fact that the insurer refuses to accept the abandonment.

"SEC. 152. The acceptance of an abandonment may be either express or implied from the conduct of the insurer. The mere silence of the insurer for an unreasonable length of time after notice shall be construed as an acceptance.

"SEC. 153. The acceptance of an abandonment, whether express or implied, is conclusive upon the parties, and admits the loss and the sufficiency of the abandonment.

"SEC. 154. An abandonment once made and accepted is irrevocable, unless the ground upon which it was made proves to be unfounded.

"SEC. 155. On an accepted abandonment of a ship, freightage earned previous to the loss belongs to the insurer of said freightage; but freightage subsequently earned belongs to the insurer of the ship.

"SEC. 156. If an insurer refuses to accept a valid abandonment, he is liable as upon an actual total loss, deducting from the amount any proceeds of the thing insured which may have come to the hands of the insured.

"SEC. 157. If a person insured omits to abandon, he may nevertheless recover his actual loss.

"SUB-TITLE I-I

"MEASURE OF INDEMNITY

"SEC. 158. A valuation in a policy of marine insurance is conclusive between the parties thereto in the adjustment of either a partial or total loss, if the insured has some interest at risk, and there is no fraud on his part; except that when a thing has been hypothecated by bottomry or respondentia, before its insurance, and without the knowledge of the person actually procuring the insurance, he may show the real value. But a valuation fraudulent in fact, entitles the insurer to rescind the contract.

"SEC. 159. A marine insurer is liable upon a partial loss, only for such proportion of the amount insured by him as the loss bears to the value of the whole interest of the insured in the property insured.

"SEC. 160. Where profits are separately insured in a contract of marine insurance, the insured is entitled to recover, in case of loss, a proportion of such profits equivalent to the proportion which the value of the property lost bears to the value of the whole.

"SEC. 161. In case of a valued policy of marine insurance on freightage or cargo, if a part only of the subject is exposed to risk, the valuation applies only in proportion to such part.

"SEC. 162. When profits are valued and insured by a contract of marine insurance, a loss of them is conclusively presumed from a loss of the property out of which they are expected to arise, and the valuation fixes their amount.

"SEC. 163. In estimating a loss under an open policy of marine insurance the following rules are to be observed:

"(a) The value of a ship is its value at the beginning of the risk, including all articles or charges which add to its permanent value or which are necessary to prepare it for the voyage insured;

"(b) The value of the cargo is its actual cost to the insured, when laden on board, or where the cost cannot be ascertained, its market value at the time and place of lading, adding the charges incurred in purchasing and placing it on board, but without reference to any loss incurred in raising money for its purchase, or to any drawback on its exportation, or to the fluctuation of the market at the port of destination, or to expenses incurred on the way or on arrival;

"(c) The value of freightage is the gross freightage, exclusive of primage, without reference to the cost of earning it; and

"(d) The cost of insurance is in each case to be added to the value thus estimated.

"SEC. 164. If cargo insured against partial loss arrives at the port of destination in a damaged condition, the loss of the insured is deemed to be the same proportion of the value which the market price at that port, of the thing so damaged, bears to the market price it would have brought if sound.

"SEC. 165. A marine insurer is liable for all the expenses attendant upon a loss which forces the ship into port to be repaired; and where it is stipulated in the policy that the insured shall labor for the recovery of the property, the insurer is liable for the expense incurred thereby, such expense, in either case, being in addition to a total loss, if that afterwards occurs.

"SEC. 166. A marine insurer is liable for a loss falling upon the insured, through a contribution in respect to the thing insured, required to be made by him towards a general average loss called for by a peril insured against: *Provided*, That the liability of the insurer shall be limited to the proportion of contribution attaching to his policy value where this is less than the contributing value of the thing insured.

"SEC. 167. When a person insured by a contract of marine insurance has a demand against others for contribution, he may claim the whole loss from the insurer, subrogating him to his own right to contribution. But no such claim can be made upon the insurer after the separation of the interests liable to contribution, nor when the insured, having the right and opportunity to enforce contribution from others, has neglected or waived the exercise of that right.

"SEC. 168. In the case of a partial loss of ship or its equipment, the old materials are to be applied towards payment for the new. Unless otherwise stipulated in the policy, a marine insurer is liable for only two-thirds (2/3) of the remaining cost of repairs after such deduction, except that anchors must be paid in full.

"TITLE 2

"FIRE INSURANCE

"SEC. 169. As used in this Code, the term *fire insurance* shall include insurance against loss by fire, lightning, windstorm, tornado or earthquake and other allied risks, when such risks are covered by extension to fire insurance policies or under separate policies.

"SEC. 170. An alteration in the use or condition of a thing insured from that to which it is limited by the policy made without the consent of the insurer, by means within the control of the insured, and increasing the risks, entitles an insurer to rescind a contract of fire insurance.

"SEC. 171. An alteration in the use or condition of a thing insured from that to which it is limited by the policy, which does not increase the risk, does not affect a contract of fire insurance.

"SEC. 172. A contract of fire insurance is not affected by any act of the insured subsequent to the execution of the policy, which does not violate its provisions, even though it increases the risk and is the cause of the loss.

"SEC. 173. If there is no valuation in the policy, the measure of indemnity in an insurance against fire is the expense it would be to the insured at the time of the commencement of the fire to replace the thing lost or injured in the condition in which it was at the time of the injury; but if there is a valuation in a policy of fire insurance, the effect shall be the same as in a policy of marine insurance.

"SEC. 174. Whenever the insured desires to have a valuation named in his policy, insuring any building or structure against fire, he may require such building or structure to be examined by an independent appraiser and the value of the insured's interest therein may then be fixed as between the insurer and the insured. The cost of such examination shall be paid for by the insured. A clause shall be inserted in such policy stating substantially that the value of the insured's interest in such building or structure has been thus fixed. In the absence of any change increasing the risk without the consent of the insurer or of fraud on the part of the insured, then in case of a total loss under such policy, the whole amount so insured upon the insured's interest in such building or structure, as stated in the policy upon which the insurers have received a premium, shall be paid, and in case of a partial loss the full amount of the partial loss shall be so paid, and in case there are two (2) or more policies covering the insured's interest therein, each policy shall contribute *pro rata* to the payment of such whole or partial loss. But in no case shall the insurer be required to pay more than the amount thus stated in such policy. This section shall not prevent the parties from stipulating in such policies concerning the repairing, rebuilding or replacing of buildings or structures wholly or partially damaged or destroyed.

"SEC. 175. No policy of fire insurance shall be pledged, hypothecated, or transferred to any person, firm or company who acts as agent for or otherwise represents the issuing company, and any such pledge,

hypothecation, or transfer hereafter made shall be void and of no effect insofar as it may affect other creditors of the insured.

"TITLE 3

"CASUALTY INSURANCE

"SEC. 176. Casualty insurance is insurance covering loss or liability arising from accident or mishap, excluding certain types of loss which by law or custom are considered as falling exclusively within the scope of other types of insurance such as fire or marine. It includes, but is not limited to, employer's liability insurance, motor vehicle liability insurance, plate glass insurance, burglary and theft insurance, personal accident and health insurance as written by non-life insurance companies, and other substantially similar kinds of insurance.

"TITLE 4

"SURETYSHIP

"SEC. 177. A contract of suretyship is an agreement whereby a party called the surety guarantees the performance by another party called the principal or obligor of an obligation or undertaking in favor of a third party called the obligee. It includes official recognizances, stipulations, bonds or undertakings issued by any company by virtue of and under the provisions of Act No. 536, as amended by Act No. 2206.

"SEC. 178. The liability of the surety or sureties shall be joint and several with the obligor and shall be limited to the amount of the bond. It is determined strictly by the terms of the contract of suretyship in relation to the principal contract between the obligor and the obligee.

"SEC. 179. The surety is entitled to payment of the premium as soon as the contract of suretyship or bond is perfected and delivered to the obligor. No contract of suretyship or bonding shall be valid and

binding unless and until the premium therefor has been paid, except where the obligee has accepted the bond, in which case the bond becomes valid and enforceable irrespective of whether or not the premium has been paid by the obligor to the surety: *Provided*, That if the contract of suretyship or bond is not accepted by, or filed with the obligee, the surety shall collect only a reasonable amount, not exceeding fifty percent (50%) of the premium due thereon as service fee plus the cost of stamps or other taxes imposed for the issuance of the contract or bond: *Provided, however*, That if the nonacceptance of the bond be due to the fault or negligence of the surety, no such service fee, stamps or taxes shall be collected.

"In the case of a continuing bond, the obligor shall pay the subsequent annual premium as it falls due until the contract of suretyship is cancelled by the obligee or by the Commissioner or by a court of competent jurisdiction, as the case may be.

"SEC. 180. Pertinent provisions of the Civil Code of the Philippines shall be applied in a suppletory character whenever necessary in interpreting the provisions of a contract of suretyship.

"TITLE 5

"LIFE INSURANCE

"SEC. 181. Life insurance is insurance on human lives and insurance appertaining thereto or connected therewith.

"Every contract or undertaking for the payment of annuities including contracts for the payment of lump sums under a retirement program where a life insurance company manages or acts as a trustee for such retirement program shall be considered a life insurance contract for purposes of this Code.

"SEC. 182. An insurance upon life may be made payable on the death of the person, or on his surviving a specified period, or otherwise contingently on the continuance or cessation of life.

"Every contract or pledge for the payment of endowments or annuities shall be considered a life insurance contract for purposes of this Code.

"In the absence of a judicial guardian, the father, or in the latter's absence or incapacity, the mother, of any minor, who is an insured or a beneficiary under a contract of life, health, or accident insurance, may exercise, in behalf of said minor, any right under the policy, without necessity of court authority or the giving of a bond, where the interest of the minor in the particular act involved, does not exceed Five hundred thousand pesos (P500,000.00) or in such reasonable amount as may be determined by the Commissioner. Such right may include, but shall not be limited to, obtaining a policy loan, surrendering the policy, receiving the proceeds of the Policy, and giving the minor's consent to any transaction on the policy.

"In the absence or in case of the incapacity of the father or mother, the grandparent, the eldest brother or sister at least eighteen (18) years of age, or any relative who has actual custody of the minor insured or beneficiary, shall act as a guardian without need of a court order or judicial appointment as such guardian, as long as such person is not otherwise disqualified or incapacitated. Payment made by the insurer pursuant to this section shall relieve such insurer of any liability under the contract.

"SEC. 183. The insurer in a life insurance contract shall be liable in case of suicide only when it is committed after the policy has been in force for a period of two (2) years from the date of its issue or of its last reinstatement, unless the policy provides a shorter period: *Provided, however*, That suicide committed in the state of insanity shall be compensable regardless of the date of commission.

"SEC. 184. A policy of insurance upon life or health may pass by transfer, will or succession to any person, whether he has an insurable interest or not, and such person may recover upon it whatever the insured might have recovered.

"SEC. 185. Notice to an insurer of a transfer or bequest thereof is not necessary to preserve the validity of a policy of insurance upon life or health, unless thereby expressly required.

"SEC. 186. Unless the interest of a person insured is susceptible of exact pecuniary measurement, the measure of indemnity under a policy of insurance upon life or health is the sum fixed in the policy.

"TITLE 6

"MICROINSURANCE

"SEC. 187. Microinsurance is a financial product or service that meets the risk protection needs of the poor where:

"(a) The amount of contributions, premiums, fees or charges, computed on a daily basis, does not exceed seven and a half percent (7.5%) of the current daily minimum wage rate for nonagricultural workers in Metro Manila; and

"(b) The maximum sum of guaranteed benefits is not more than one thousand (1,000) times of the current daily minimum wage rate for nonagricultural workers in Metro Manila.

"SEC. 188. No insurance company or mutual benefit association shall engage in the business of microinsurance unless it possesses all the requirements as may be prescribed by the Commissioner. The Commissioner shall issue such rules and regulations governing microinsurance.

"CHAPTER II-A

"FINANCIAL REPORTING FRAMEWORK

"SEC. 189. All companies regulated by the Commission, unless otherwise required by law, should comply with the financial reporting frameworks adopted by the Commission for purposes of creating the statutory financial reports and the annual statements to be submitted to the Commission. Financial reporting framework means a set of accounting and reporting principles, standards, interpretations and pronouncements that must be adopted in the preparation and submission of the statutory financial statements and reports required by the Commission. This financial reporting framework is not the same as the financial reporting framework used to prepare the financial statements that the Securities and Exchange Commission may require. The main purpose of the statutory statements is to present important information about the level of risk and solvency situation of insurers. In prescribing the applicable statutory financial reporting framework, the Commissioner shall take into account international standards concerning solvency and insurance company reporting as well as generally accepted actuarial principles concerning financial reporting promulgated by the Actuarial Society of the Philippines.

"The assets and investments discussed in Sections 204 to 215 shall be accounted for in accordance with this section.

"The valuation of reserves shall be accounted for in accordance with Title 5 of this Code.

"CHAPTER III

"THE BUSINESS OF INSURANCE

"TITLE 1

"INSURANCE COMPANIES, ORGANIZATION, CAPITALIZATION AND AUTHORIZATION

"SEC. 190. For purposes of this Code, the term *insurer* or *insurance company* shall include all partnerships, associations, cooperatives or

corporations, including government-owned or -controlled corporations or entities, engaged as principals in the insurance business, excepting mutual benefit associations. Unless the context otherwise requires, the term shall also include professional reinsurers defined in Section 288. *Domestic company* shall include companies formed, organized or existing under the laws of the Philippines. *Foreign company* when used without limitation shall include companies formed, organized, or existing under any laws other than those of the Philippines.

"SEC. 191. The provisions of the Corporation Code, as amended, shall apply to all insurance corporations now or hereafter engaged in business in the Philippines insofar as they do not conflict with the provisions of this chapter.

"SEC. 192. No corporation, partnership, or association of persons shall transact any insurance business in the Philippines except as agent of a corporation, partnership or association authorized to do the business of insurance in the Philippines, unless possessed of the capital and assets required of an insurance corporation doing the same kind of business in the Philippines and invested in the same manner; unless the Commissioner shall have granted it a certificate to the effect that it has complied with all the provisions of this Code.

"Every entity receiving any such certificate of authority shall be subject to the insurance and other applicable laws of the Philippines and to the jurisdiction and supervision of the Commissioner.

"SEC. 193. No insurance company shall transact any insurance business in the Philippines until after it shall have obtained a certificate of authority for that purpose from the Commissioner upon application therefor and payment by the company concerned of the fees hereinafter prescribed.

"The Commissioner may refuse to issue a certificate of authority to any insurance company if, in his judgment, such refusal will best promote the interest of the people of this country. No such certificate of authority shall be granted to any such company until the Commissioner shall have satisfied himself by such examination as he may make and such evidence as he may require that such company is qualified by the laws of the Philippines to transact business therein, that the grant of such authority appears to be justified in the light of local economic requirements, and that the direction and administration, as well as the integrity and responsibility of the organizers and administrators, the financial organization and the amount of capital, reasonably assure the safety of the interests of the policyholders and the public.

"In order to maintain the quality of the management of the insurance companies and afford better protection to policyholders and the public in general, any person of good moral character, unquestioned integrity and recognized competence may be elected or appointed director or officer of insurance companies in accordance with the pertinent provisions contained in the corporate governance circulars prescribed by the Commissioner. In addition hereto, the Commissioner shall prescribe the qualifications of directors, executive officers and other key officials of insurance companies for purposes of this section.

"No person shall concurrently be a Director and/or Officer of an insurance company and an adjustment company.

"Before issuing such certificate of authority, the Commissioner must be satisfied that the name of the company is not that of any other known company transacting a similar business in the Philippines, or a name so similar as to be calculated to mislead the public. The Commissioner may issue rules and regulations on the use of names of insurance companies and other supervised persons or entities.

"The certificate of authority issued by the Commissioner shall expire on the last day of December, three (3) years following its date of issuance, and shall be renewable every three (3) years thereafter, subject to the company's continuing compliance with the provisions of this Code, circulars, instructions, rulings or decisions of the Commission.

"Every company receiving any such certificates of authority shall be subject to the provisions of this Code and other related laws and to the jurisdiction and supervision of the Commissioner.

"No insurance company may be authorized to transact in the Philippines the business of life and non-life insurance concurrently, unless specifically authorized to do so by the Commissioner: *Provided*, That the terms *life* and *non-life* insurance shall be deemed to include health, accident and disability insurance.

"No insurance company shall have equity in an adjustment company and neither shall an adjustment company have equity in an insurance company.

"No insurance company issued with a valid certificate of authority to transact insurance business anywhere in the Philippines by the Insurance Commissioner, shall be barred, prevented, or disenfranchised from issuing any insurance policy or from transacting any insurance business within the scope or coverage of its certificate of authority, anywhere in the Philippines, by any local government unit or authority, for whatever guise or reason whatsoever, including under any kind of ordinance, accreditation system, or scheme. Any local ordinance or local government unit regulatory issuance imposing such restriction or disenfranchisement on any insurance company shall be deemed null and void *ab initio*.

"SEC. 194. Except as provided in Section 289, no new domestic life or non-life insurance company shall, in a stock corporation, engage in business in the Philippines unless possessed of a paid-up capital equal to at least One billion pesos (P1,000,000,000.00): *Provided*, That a domestic insurance company already doing business in the Philippines shall have a net worth by June 30, 2013 of Two hundred fifty million pesos (P250,000,000.00). Furthermore, said company must have by December 31, 2016, an additional Three hundred million pesos (P300,000,000.00) in net worth; by December 31, 2019, an additional Three hundred fifty million pesos (P350,000,000.00) in net worth; and by December 31, 2022, an additional Four hundred million pesos (P400,000,000.00) in net worth.

"The Commissioner may, as a pre-licensing requirement of a new insurance company, in addition to the paid-up capital stock, require the stockholders to pay in cash to the company in proportion to their subscription interests a contributed surplus fund of not less than One hundred million pesos (P100,000,000.00). He may also require such company to submit to him a business plan showing the company's estimated receipts and disbursements, as well as the basis therefor, for the next succeeding three (3) years.

"If organized as a mutual company, in lieu of such net worth, it must have available total members equity in an amount to be determined by the Insurance Commission above all liabilities for losses reported; expenses, taxes, legal reserve, and reinsurance of all outstanding risks, and the contributed surplus fund equal to the amounts required of stock corporations. A stock insurance company doing business in the Philippines may, subject to the pertinent law and regulation which now or hereafter may be in force, alter its organization and transform itself into a mutual insurance company.

"The Secretary of Finance may, upon recommendation of the Commissioner, increase such minimum paid-up capital stock or cash assets requirement under such terms and conditions as he may impose, to an amount which, in his opinion, would reasonably assure the safety of the interests of the policyholders and the public. The minimum paid-up capital and net worth requirement must remain unimpaired for the continuance of the license. The Commissioner may require the adoption of the risk-based capital approach and other internationally accepted forms of capital framework.

"For the purpose of this section, net worth shall consist of:

"(a) Paid-up capital;

"(b) Retained earnings;

"(c) Unimpaired surplus; and

"(d) Revaluation of assets as may be approved by the Commissioner.

"The Commission may adopt for purposes of compliance with capital build up requirement under this Code the recognition as part of the capital account, capital notes or debentures which are subordinate to all credits and senior only to common capital stocks.

"The President of the Philippines may order a periodic review every two (2) years the capital structure set out above to determine the capital adequacy of the local insurance industry from and after the integration and liberalization of the financial services, including insurance, in the ASEAN Region. For this purpose, a review committee consisting of representatives from the Department of Finance (DOF), the Insurance Commission (IC), the National Economic and Development Authority (NEDA), the Securities and Exchange Commission (SEC) and other agencies which the President may designate shall conduct the review and may recommend to the President to adopt for implementation the necessary capital adjustment.

"SEC. 195. Every company must, before engaging in the business of insurance in the Philippines, file with the Commissioner the following:

"(a) A certified copy of the last annual statement or a verified financial statement exhibiting the condition and affairs of such company;

"(b) If incorporated under the laws of the Philippines, a copy of the articles of incorporation and bylaws, and any amendments to either, certified by the Securities and Exchange Commission to be a copy of that which is filed in its Office;

"(c) If incorporated under any laws other than those of the Philippines, a certificate from the Securities and Exchange Commission showing that it is duly registered in the mercantile registry of that Commission in accordance with the Corporation Code. A copy of the articles of incorporation and bylaws, and any amendments to either, if organized or formed under any law requiring such to be filed, duly certified by the officer having the custody of same, or if not so organized, a copy of the law, charter or deed of settlement under which the deed of organization is made, duly certified by the proper custodian thereof, or proved by affidavit to be a copy; also, a certificate under the hand and seal of the proper officer of such state or country having supervision of insurance business therein, if any there be, that such corporation or company is organized under the laws of such state or country, with the amount of capital stock or assets and legal reserve required by this Code;

"(d) If not incorporated and of foreign domicile, aside from the certificate mentioned in paragraph (c) of this section, a certificate setting forth the nature and character of the business, the location of the principal office, the name of the individual or names of the persons composing the partnership or association, the amount of actual capital employed or to be employed therein, and the names of all officers and persons by whom the business is or may be

"The certificate must be verified by the affidavit of the chief officer, secretary, agent, or manager of the company; and if there are any written articles of agreement of the company, a copy thereof must accompany such certificate.

"SEC. 196. The Commissioner must require as a condition precedent to the transaction of insurance business in the Philippines by any foreign insurance company, that such company file in his office a written power of attorney designating some person who shall be a resident of the Philippines as its general agent, on whom any notice provided by law or by any insurance policy, proof of loss, summons and other legal processes may be served in all actions or other legal proceedings against such company, and consenting that service upon such general agent shall be admitted and held as valid as if served upon the foreign company at its home office. Any such foreign company shall, as further condition precedent to the transaction of insurance business in the Philippines, make and file with the Commissioner an agreement or stipulation, executed by the proper authorities of said company in form and substance as follows:

"The (name of company) does hereby stipulate and agree in consideration of the permission granted by the Insurance Commissioner to transact business in the Philippines, that if at any time said company shall leave the Philippines, or cease to transact business therein, or shall be without any agent in the Philippines on whom any notice, proof of loss, summons, or legal process may be served, then in any action or proceeding arising out of any business or transaction which occurred in the Philippines, service of any notice provided by law, or insurance policy, proof of loss, summons, or other legal process may be made upon the Insurance Commissioner, and that such service upon the Insurance Commissioner shall have the same force and effect as if made upon the company.

"Whenever such service of notice, proof of loss, summons, or other legal process shall be made upon the Commissioner, he must, within ten (10) days

thereafter, transmit by mail, postage paid, a copy of such notice, proof of loss, summons, or other legal process to the company at its home or principal office. The sending of such copy by the Commissioner shall be a necessary part of the service of the notice, proof of loss, or other legal process.

"SEC. 197. No insurance company organized or existing under the government or laws other than those of the Philippines shall engage in business in the Philippines unless possessed of unimpaired capital or assets and reserve of not less than One billion pesos (P1,000,000,000.00), nor until it shall have deposited with the Commissioner for the benefit and security of the policyholders and creditors of such company in the Philippines, securities satisfactory to the Commissioner consisting of good securities of the Philippines, including new issues of stock of registered enterprises, as this term is defined in Executive Order No. 226 of 1987, as amended, to the actual market value of not less than the amount herein required: *Provided*, That at least fifty percent (50%) of such securities shall consist of bonds or other instruments of debt of the Government of the Philippines, its political subdivisions and instrumentalities, or of government-owned or -controlled corporations and entities, including the Bangko Sentral ng Pilipinas: *Provided, further*, That the total investment of a foreign insurance company in any registered enterprise shall not exceed twenty percent (20%) of the net worth of said foreign insurance company nor twenty percent (20%) of the capital of the registered enterprise, unless previously authorized in writing by the Commissioner.

"The Commissioner may, as a pre-licensing requirement of a new branch office of a foreign insurance company, in addition to the required asset or net worth, require the company to have an additional surplus fund in an amount to be determined by the Insurance Commission.

"For purposes of this Code, the net worth of a foreign insurance company shall refer only to its net worth in the Philippines.

"SEC. 198. The Commissioner shall hold the securities, deposited as required in the immediately preceding section, for the benefit and security of all the policyholders and creditors of the company depositing the same: *Provided*, That the Commissioner may as long as the company is solvent, permit the company to collect the interest or dividends on the securities so deposited, and, from time to time, with his assent, to withdraw any of such securities, upon depositing with said Commissioner other like securities, the market value of which shall be equal to the market value of such as may be withdrawn. In the event of any company ceasing to do business in the Philippines, the securities deposited as aforesaid shall be returned to the company upon the Commissioner's written approval and only after the company has duly proven in its application therefor that it has no further liability whatsoever under any of its policies nor to any of its creditors in the Philippines.

"SEC. 199. Every foreign company doing business in the Philippines shall set aside an amount corresponding to the legal reserves of the policies written in the Philippines and invest and keep the same therein in accordance with the provisions of this section. The legal reserve therein required to be set aside shall be invested only in the classes of Philippine securities described in Section 206: *Provided, however*, That no investment in stocks or bonds of any single entity shall, in the aggregate exceed twenty percent (20%) of the net worth of the investing company or twenty percent (20%) of the capital of the issuing company, whichever is the lesser, unless otherwise approved in writing by the Commissioner. The securities purchased and kept in the Philippines under this section, shall not be sent out of the territorial jurisdiction of the Philippines without the written consent of the Commissioner.

"TITLE 2
"SOLVENCY

"SEC. 200. An insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital, and net worth requirements as prescribed by the Commissioner. Such solvency requirements shall be based on internationally accepted solvency frameworks and adopted only after due consultation with the insurance industry associations.

"Whenever the aforementioned requirement be found to be less than that herein required to be maintained, the Commissioner shall forthwith direct the company to make good any such deficiency by cash, to be contributed by all stockholders of record in proportion to their respective interests, and paid to the treasurer of the company, within fifteen (15) days from receipt of the order: *Provided*, That the company in the interim shall not be permitted to take any new risk of any kind or character unless and until it make good any such deficiency: *Provided, further*, That a stockholder who aside from paying the contribution due from him, pays the contribution due from another stockholder by reason of the failure or refusal of the latter to do so, shall have a lien on the certificates of stock of the insurance company concerned appearing in its books in the name of the defaulting stockholder on the date of default, as well as on any interests or dividends that have accrued or will accrue to the said certificates of stock, until the corresponding payment or reimbursement is made by the defaulting stockholder.

"SEC. 201. No domestic insurance corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements under Section 194 and except from profits attested in a sworn statement to the Commissioner by the

president or treasurer of the corporation to be remaining on hand after retaining unimpaired:

"(a) The entire paid-up capital stock;

"(b) The solvency requirements defined by Section 200;

"(c) In the case of life insurance corporations, the legal reserve fund required by Section 217;

"(d) In the case of corporations other than life, the legal reserve fund required by Section 219; and

"(e) A sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

"Any dividend declared or distributed under the preceding paragraph shall be reported to the Commissioner within thirty (30) days after such declaration or distribution.

"If the Commissioner finds that any such corporation has declared or distributed any such dividend in violation of this section, he may order such corporation to cease and desist from doing business until the amount of such dividend or the portion thereof in excess of the amount allowed under this section has been restored to said corporation.

"The Commissioner shall prescribe solvency requirements for branches of foreign insurance companies operating in the Philippines.

"TITLE 3

"ASSETS

"SEC. 202. In any determination of the financial condition of any insurance company doing business in the Philippines, there shall be allowed and admitted as assets only such assets legally or beneficially owned by the insurance company concerned as determined by the Commissioner which consist of:

"(a) Cash in the possession of the insurance company or in transit under its control, and the true and duly verified balance of any deposit of such company in a financially sound bank or trust company duly authorized by the Bangko Sentral ng Pilipinas.

"(b) Investments in securities, including money market instruments, and in real property acquired or held in accordance with and subject to the applicable provisions of this Code and the income realized therefrom or accrued thereon.

"(c) Loans granted by the insurance company concerned to the extent of that portion thereof adequately secured by non-speculative assets with readily realizable values in accordance with and subject to the limitations imposed by applicable provisions of this Code.

"(d) Policy loans and other policy assets and liens on policies, contracts or certificates of a life insurance company, in an amount not exceeding legal reserves and other policy liabilities carried on each individual life insurance policy, contract or certificate.

"(e) The net amount of uncollected and deferred premiums and annuity considerations in the case of a life insurance company which carries the full mean tabular reserve liability.

"(f) Reinsurance recoverable by the ceding insurer:

"(1) From an insurer authorized to transact business in this country, the full amount thereof; or

"(2) From an insurer not authorized in this country, in an amount not exceeding the liabilities carried by the ceding insurer for amounts withheld under a reinsurance treaty with such unauthorized insurer as security for the payment of obligations thereunder if such funds are held subject to withdrawal by, and under the control of, the ceding insurer. The Commissioner may prescribe the conditions under which a ceding insurer may be

allowed credit, as an asset or as a deduction from loss and unearned premium reserves, for reinsurance recoverable from an insurer not authorized in this country but which presents satisfactory evidence that it meets the applicable standards of solvency required in this country.

"(g) Funds withheld by a ceding insurer under a reinsurance treaty, provided reserves for unpaid losses and unearned premiums are adequately provided.

"(h) Deposits or amounts recoverable from underwriting associations, syndicates and reinsurance funds, or from any suspended banking institution, to the extent deemed by the Commissioner to be available for the payment of losses and claims and values to be determined by him.

"(i) Electronic data processing machines, as may be authorized by the Commissioner to be acquired by the insurance company concerned, the acquisition cost of which to be amortized in equal annual amounts within a period of five (5) years from the date of acquisition thereof.

"(j) Investments in mutual funds, real estate investment trusts, salary loans, unit investment trust funds and special deposit accounts, subject to the conditions as may be provided for by the Commissioner.

"(k) Other assets, not inconsistent with the provisions of paragraphs (a) to (j) hereof, which are deemed by the Commissioner to be readily realizable and available for the payment of losses and claims at values to be determined by him in a circular, rule or regulation.

"SEC. 203. In addition to such assets as the Commissioner may from time to time determine to be non-admitted assets of insurance companies doing business in the Philippines, the following assets shall

in no case be allowed as admitted assets of an insurance company doing business in the Philippines, in any determination of its financial condition:

"(a) Goodwill, trade names, and other like intangible assets.

"(b) Prepaid or deferred charges for expenses and commissions paid by such insurance company.

"(c) Advances to officers (other than policy loans), which are not adequately secured and which are not previously authorized by the Commissioner, as well as advances to employees, agents, and other persons on mere personal security.

"(d) Shares of stock of such insurance company, owned by it, or any equity therein as well as loans secured thereby, or any proportionate interest in such shares of stock through the ownership by such insurance company of an interest in another corporation or business unit.

"(e) Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies.

"(f) Items of bank credits representing checks, drafts or notes returned unpaid after the date of statement.

"(g) The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such insurance company exceeds the aggregate value thereof as determined in accordance with the provisions of this Code and/or the rules of the Commissioner.

"All non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement submitted by an insurance company to the Commissioner, or in any insurance examiner's report to him, shall also be reported, to the extent of the value disallowed as deductions from the gross assets of such insurance

company, except where the Commissioner permits a reserve to be carried among the liabilities of such insurance company in lieu of any such deduction.

"TITLE 4

"INVESTMENTS

"SEC. 204. A life insurance company may lend to any of its policyholders upon the security of the value of its policy such sum as may be determined pursuant to the provisions of the policy.

"No insurance company shall loan any of its money or deposits to any person, corporation or association, except upon the security of any of the following:

"(a) First mortgage or deeds of trust of registered, unencumbered, improved or unimproved real estate, including condominiums;

"(b) First mortgages or deeds of trust of actually cultivated, improved and unencumbered agricultural lands in the Philippines;

"(c) Purchase money mortgages, lease purchase agreements or similar securities executed or received by it on account of the sale or exchange of real property acquired pursuant to Sections 206 and 208;

"(d) Bonds or other instruments of indebtedness issued or guaranteed by the Government of the Philippines or its political subdivisions authorized by law to incur such obligations or issue such guarantees or of government-owned or -controlled corporations and instrumentalities including the Bangko Sentral ng Pilipinas; or

"(e) Obligations issued or guaranteed by universal banks, commercial banks, offshore banking units, investment houses or other financial intermediaries duly registered with the Bangko Sentral ng Pilipinas; or

"(f) Obligations issued or guaranteed by foreign banks or corporations, each of which shall have total net worth of at least One hundred fifty million US dollars (\$US150,000,000.00) or such other higher net worth as may be prescribed by the Insurance Commission, as shown in their financial statements as of the immediately preceding fiscal year; or

"(g) Assignments of monetary instruments such as cash deposits, deposit certificates or other similar instruments of universal banks, commercial banks, investment houses or other financial intermediaries duly registered with the Bangko Sentral ng Pilipinas; or

"(h) Pledges of shares of stock, bonds or other instruments of indebtedness specified in Section 209; or

"(i) Chattel mortgages over equipment not more than three (3) years old; and

"(j) Such other security as may be approved by the Commissioner. /

"The loans provided in the preceding subsection shall be subject to the following conditions:

"(1) The amount of loan secured by real estate mortgage over a non-agricultural land shall not exceed seventy percent (70%) of its appraised value, and in the case of a loan secured by a real estate mortgage over an agricultural land, the amount of loan shall not exceed forty percent (40%) of its market value: *Provided, That, in no case shall such loan have a maturity period in excess of twenty-five (25) years;*

"(2) Unless approved by the Commissioner, no loan may be granted upon the security of a mortgage on improved real estate if the improvements thereon do not belong to the owner of the land, and the owner of the improvements does not sign the deed of mortgage. However, if the owner of the land is the Government of the Philippines or any of its political subdivisions and a long-term lease has been executed in favor of the owner of the improvements, the owner

of the land need not be a party to the deed of mortgage. The expiration date of the lease shall not, however, precede the maturity of the loan. The phrase 'improved real estate' as used herein shall mean land with permanent building or buildings erected thereon;

"(3) Lease-agreements or similar securities received on the sale of real estate property shall not exceed one hundred percent (100%) of the selling price of said property, or one hundred percent (100%) of its market value at the time of its disposition, whichever amount is lower. However, in no case shall such agreement have a maturity period not exceeding thirty (30) years;

"(4) Loans secured by shares of stock of solvent corporations or institutions shall not exceed fifty percent (50%) of:

"(i) The weighted average market price for the one hundred eighty (180) days preceding the approval of the loan for shares listed in the stock exchange; and

"(ii) For unlisted shares, the adjusted book value of such shares.

"(5) Loans secured by the chattel mortgages over equipment shall not exceed seventy percent (70%) of the market value of said equipment.

"SEC. 205. No loan by any insurance company on the security of real estate shall be made unless the title to such real estate shall have first been registered in accordance with the existing Land Registration Act, or shall have been previously registered under the provisions of the existing Mortgage Law and the lien or interest of the insurance company as mortgagee has been registered.

"SEC. 206. (a) An insurance company may purchase, hold, own and convey such property, real and personal, as may have been mortgaged, pledged, or conveyed to it in good faith in trust for its benefit by

reason of money loaned by it in pursuance of the regular business of the company, and such real or personal property as may have been purchased by it at sales under pledges, mortgages or deeds of trust for its benefit on account of money loaned by it; and such real and personal property as may have been conveyed to it by borrowers in satisfaction and discharge of loans made by the company in payment or by reason of any loan made by the company in payment or by reason of any loan made by it shall be sold by the company within twenty (20) years after the title thereto has been vested in it.

"(b) An insurance company may purchase, hold, and own the following:

"(1) Real properties which serve as its main place of business and/or branch offices: *Provided*, That such investment shall not in the overall exceed twenty percent (20%) of its net worth as shown by its latest financial statement approved by the Commissioner.

"(2) Bonds or other instruments of indebtedness of the Government of the Philippines or its political subdivisions authorized by law to issue bonds at the reasonable market value thereof.

"(3) Bonds or other instruments of debt of government-owned or -controlled corporations and entities, including the Bangko Sentral ng Pilipinas.

"(4) Bonds, debentures or other instruments of indebtedness of any solvent corporation or institution created or existing under the laws of the Philippines: *Provided, however*, That the issuing, assuming or guaranteeing entity or its predecessors shall not have defaulted in the payment of interest on any of its securities and that during each of any three (3) including the last two (2) of the five (5) fiscal years next preceding the date of acquisition by such insurance company of such bonds, debentures, or other instruments of indebtedness, the net earnings of the issuing, assuming or guaranteeing institution

available for its fixed charges, as hereinafter defined, shall have been not less than one and one-quarter (1¼) times the total of its fixed charges for such year: *Provided, further,* That no life insurance company shall invest in or loan upon the obligations of any one institution in the kinds permitted under this subsection an amount in excess of twenty-five percent (25%) of the total admitted assets of such insurer as of December thirty-first next preceding the date of such investment.

"As used in this subsection the term *net earnings available for fixed charges* shall mean net income after deducting operating and maintenance expenses, taxes other than income taxes, depreciation and depletion; but excluding extraordinary nonrecurring items of income or expense appearing in the regular financial statement of the issuing, assuming or guaranteeing institution. The term *fixed charges* shall include interest on funded and unfunded debt, amortization of debt discount, and rentals for leased properties.

"(5) Preferred or guaranteed stocks of any solvent corporation or institution created or existing under the laws of the Philippines: *Provided,* That if the stocks are guaranteed, the amount of stocks so guaranteed is not in excess of fifty percent (50%) of the amount of the preferred or common stocks, as the case may be, of the guaranteeing corporation: *Provided, finally,* That no life insurance company shall invest in or loan upon obligations of any one institution in the kinds permitted under this subsection an amount in excess of ten percent (10%) of the total admitted assets of such insurer as of December thirty-first next preceding the date of such investment.

"(6) Common stocks of any solvent corporation or institution created or existing under the laws of the Philippines: *Provided, however,* That no life insurance company shall invest in or loan upon the obligations of any one corporation or institution in

the kinds permitted under this subsection an amount in excess of ten percent (10%) of the total admitted assets of such insurer as of December thirty-first next preceding the date of such investment.

"(7) Securities issued by a registered enterprise, as this term is defined in Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, as amended: *Provided,* That the total investment of a domestic non-life insurance company in any registered enterprise shall not exceed twenty percent (20%) of the net worth of said insurance company as shown by its aforesaid financial statement unless previously authorized by the Commissioner.

"(8) Certificates, notes and other obligations issued by the trustees or receivers of any institution created or existing under the laws of the Philippines which, or the assets of which, are being administered under the direction of any court having jurisdiction: *Provided, however,* That such certificates, notes or other obligations are adequately secured as to principal and interests.

"(9) Equipment trust obligations or certificates which are adequately secured or other adequately secured instruments evidencing an interest in equipment wholly or in part within the Philippines: *Provided, however,* That there is a right to receive determined portions of rental, purchase or other fixed obligatory payments for the use or purchase of such equipment.

"(10) Any obligation of any corporation or institution created or existing under the laws of the Philippines which is, on the date of acquisition by the insurer, adequately secured and has qualities and characteristics wherein the speculative elements are not predominant.

"(11) Such other securities as may be approved by the Commissioner.

"(c) Any domestic insurer which has outstanding insurance, annuity or reinsurance contracts in currencies other than the national currency of the Philippines may invest in, or otherwise acquire or loan upon securities and investments in such currency which are substantially of the same kinds, classes and investment grades as those eligible for investment under the foregoing subdivisions of this section; but the aggregate amount of such investments and of such cash in such currency which is at any time held by such insurer shall not exceed one and one-half (1½) times the amount of its reserves and other obligations under such contracts or the amount which such insurer is required by the law of any country or possession outside the Republic of the Philippines to be invested in such country or possession, whichever shall be greater.

"SEC. 207. An insurance company may:

"(1) Invest in equities of other financial institutions; and

"(2) Engage in the buying and selling of long-term debt instruments: *Provided*, That any or all of such investments shall be with the prior approval of the Commissioner. Insurance companies may, however, invest in listed equities of other financial institutions without need of prior approval by the Commissioner.

"SEC. 208. Any life insurance company may:

"(a) Acquire or construct housing projects and, in connection with any such project, may acquire land or any interest therein by purchase, lease or otherwise, or use land acquired pursuant to any other provision of this Code. Such company may thereafter own, maintain, manage, collect or receive income from, or sell and convey, any land or interest therein so acquired and any improvements thereon. The aggregate book value of the investments of any such company in all such projects shall not exceed at the time of such investments twenty-five percent (25%) of the total admitted assets of such company on the thirty-first day of December next preceding: *Provided*,

That the funds of the company for the payment of pending claims and obligations shall not be used for such investments.

"(b) Acquire real property, other than property to be used primarily for providing housing and property for accommodation of its own business, as an investment for the production of income, or may acquire real property to be improved or developed for such investment purpose pursuant to a program therefor, subject to the condition that the cost of each parcel of real property so acquired under the authority of this paragraph (b), including the estimated cost to the company of the improvement or development thereof, when added to the book value of all other real property held by it pursuant to this paragraph (b), shall not exceed twenty-five percent (25%) of its admitted assets as of the thirty-first day of December next preceding.

"SEC. 209. Every domestic insurance company shall, to the extent of an amount equal in value to twenty-five percent (25%) of the minimum net worth required under Section 194, invest its funds only in securities, satisfactory to the Commissioner, consisting of bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of government-owned or -controlled corporations and entities, including the Bangko Sentral ng Pilipinas; *Provided*, That such investments shall at all times be maintained free from any lien or encumbrance: *Provided, further*, That such securities shall be deposited with and held by the Commissioner for the faithful performance by the depositing insurer of all its obligations under its insurance contracts. The provisions of Section 198 shall, so far as practicable, apply to the securities deposited under this section.

"Except as otherwise provided in this Code, no judgment creditor or other claimant shall have the right to levy upon any of the securities of the insurer held on deposit under this section or held on deposit pursuant to the requirement of the Commissioner.

"SEC. 210. After satisfying the requirements contained in the preceding section, any domestic non-life insurance company, shall invest, to an amount prescribed below, its funds in, or otherwise, acquire or loan upon, only the classes of investments described in Section 206, including securities issued by any registered enterprise, as this term is defined in Executive Order No. 226, otherwise known as 'The Omnibus Investments Code of 1987' and such other classes of investments as may be authorized by the Commissioner for purposes of this section: *Provided*, That:

"(a) No more than twenty percent (20%) of the net worth of such company as shown by its latest financial statement approved by the Commissioner shall be invested in the lot and building in which the insurance company conducts its business; and

"(b) The total investment of an insurance company in any registered enterprise shall not exceed twenty percent (20%) of the net worth of said insurance company as shown by its aforesaid financial statement nor twenty percent (20%) of the paid-up capital of the registered enterprise excluding the intended investment, unless previously authorized by the Commissioner: *Provided, further*, That such investments, free from any lien or encumbrance, shall be at least equal in amount to the aggregate amount of: (1) its legal reserve, as provided in Section 219, and (2) its reserve fund held for reinsurance as provided for in the pertinent treaty provision in the case of reinsurance ceded to authorized insurers.

"SEC. 211. After satisfying the requirements contained in Sections 197, 199, 209 and 210, any non-life insurance company may invest any portion of its funds representing earned surplus in any of the investments described in Sections 204, 206 and 207, or in any securities issued by a registered enterprise mentioned in the preceding sections: *Provided*, That no investment in stocks or bonds of any single entity shall in the aggregate, exceed twenty percent (20%) of the net worth of the insurance company as shown in its latest financial statement approved by the

Commissioner or twenty percent (20%) of the paid-up capital of the issuing company, whichever is lesser, unless otherwise approved by the Commissioner.

"SEC. 212. After satisfying the minimum capital investment required in Section 209, any life insurance company may invest its legal policy reserve, as provided in Section 217 or in Section 218, in any of the classes of securities or types of investments described in Sections 204, 206, 207 and 208, subject to the limitations therein contained, and in any securities issued by any registered enterprise mentioned in Section 210, free from any lien or encumbrance, in such amounts as may be approved by the Commissioner. Such company may likewise invest any portion of its earned surplus in the aforesaid securities or investments subject to the aforesaid limitations.

"SEC. 213. Any investment made in violation of the applicable provisions of this title shall be considered non-admitted assets.

"SEC. 214. (a) All bonds or other instruments of indebtedness having a fixed term and rate of interest and held by any life insurance company authorized to do business in this country, if amply secured and if not in default as to principal or interest, shall be valued based on their amortized cost using effective interest method less impairment and unrecoverable amount based on appropriate measurement methods which are generally accepted in the industry and accepted by the Commissioner. The Commissioner shall have the power to determine the eligibility of any such investments for valuation on the basis of amortization, and may by regulation prescribe or limit the classes of securities so eligible for amortization. All bonds or other instruments of indebtedness which in the judgment of the Commissioner are not amply secured shall not be eligible for amortization and shall be valued in accordance with paragraph two. The Commissioner may, if he finds that the interest of policyholders so

permit or require, by official regulation permit or require any class or classes of insurers, other than life insurance companies authorized to do business in this country, to value their bonds or other instruments of indebtedness in accordance with the foregoing rule.

"(b) The investments of all insurers authorized to do business in this country, except securities subject to amortization and except as otherwise provided in this chapter, shall be valued, in the discretion of the Commissioner, at their amortized cost using effective interest method less impairment and unrecoverable amount or at valuation representing their fair market value. If the Commissioner finds that in view of the character of investments of any insurer authorized to do business in this country it would be prudent for such insurer to establish a special reserve for possible losses or fluctuations in the values of its investments, he may require such insurer to establish such reserve, reasonable in amount, and include a report thereon in any statement or report of the financial condition of such insurer. The Commissioner may, in connection with any examination or required financial statement of an authorized insurer, require such insurer to furnish him complete financial statements and audited report of the financial condition of any corporation of which the securities are owned wholly or partly by such insurer and may cause an examination to be made of any subsidiary or affiliate of such insurer as appropriate to specific investments as provided in appropriate circulars issued by the Commissioner.

"(c) Investments in equity of an insurance company shall be valued as follows:

"(1) Listed stocks shall be valued at market value and periodically adjusted to reflect market changes through a special valuation account to reflect their realizable value when sold;

"(2) Unlisted stocks shall be valued at adjusted book value based on the latest unqualified audited financial statements of the company which issued such stocks; and

"(3) Stocks of a corporation under the control of the insurer shall be valued using the equity method which is the cost plus or minus the share of the controlling company in the earnings or losses of the controlled company after acquisition of such stocks.

"(d) The stock of an insurance company shall be valued at the lesser of its market value or its book value as shown by its last approved audited financial statement or the last report on examination, whichever is more recent. The book value of a share of common stock of an insurance company shall be ascertained by dividing (1) the amount of its capital and surplus less the value of all of its preferred stock, if any, outstanding, by (2) the number of shares of its common stock issued and outstanding.

"Notwithstanding the foregoing provisions, an insurer may, at its option, value its holdings of stock in a subsidiary insurance company in an amount not less than acquisition cost if such acquisition cost is less than the value determined as hereinbefore provided.

"(e) Real estate acquired by foreclosure or by deed in lieu thereof, in the absence of a recent appraisal deemed by the Commissioner to be reliable, shall not be valued at an amount greater than the unpaid principal of the defaulted loan at the date of such foreclosure or deed, together with any taxes and expenses paid or incurred by such insurer at such time in connection with such acquisition, and the cost of additions or improvements thereafter paid by such insurer and any amount or amounts thereafter paid by such insurer or any assessments levied for improvements in connection with the property.

"(f) Purchase money mortgages received on dispositions of real property held pursuant to Section 208 shall be valued in an amount equivalent to ninety percent (90%) of the value of such real property.

Purchase money mortgages received on disposition of real property otherwise held shall be valued in an amount not exceeding ninety percent (90%) of the value of such real property as determined by an appraisal made by an appraiser at or about the time of disposition of such real property.

"(g) The stock of a subsidiary of an insurer shall be valued on the basis of the greater of:

"(1) The value of only such of the assets of such subsidiary as would constitute lawful investments for the insurer if acquired or held directly by the insurer; or

"(2) Such other value determined pursuant to standards and cumulative limitations, contained in a regulation to be promulgated by the Commissioner.

"(h) Notwithstanding any provision contained in this section or elsewhere in this chapter, if the Commissioner finds that the interests of policyholders so permit or require, he may permit or require any class or classes of insurers authorized to do business in this country to value their investments or any class or classes thereof as of any date heretofore or hereafter in accordance with any applicable valuation or method.

"SEC. 215. It shall be the duty of the officers of the insurance company to report within the first fifteen (15) days of every month all such investments as may be made by them during the preceding month, and the Commissioner may, if such investments or any of them seem injudicious to him, require the sale or disposal of the same. The report shall also include a list of investments sold or disposed of by the company during the same period.

"TITLE 5

"RESERVES

"SEC. 216. Every life insurance company, doing business in the Philippines, shall annually make a valuation of all policies, additions thereto, unpaid dividends, and all other obligations

outstanding on the thirty-first day of December of the preceding year. All such valuations shall be made according to the standard adopted by the company, as prescribed by the Commissioner in accordance with internationally accepted actuarial standards, which standard shall be stated in its annual report.

"Such standard of valuations shall be according to a standard table of mortality with interest to be determined by the Insurance Commissioner. When the preliminary term basis is used, the term insurance shall be limited to the first policy year.

"The results of such valuations shall be reported to the Commissioner on or before the thirtieth day of April of each year accompanied by a sworn statement of a designated company officer and stating the methods and assumptions used in arriving at the values reported.

"SEC. 217. The aggregate net value so ascertained of the policies of such company shall be deemed its reserve liability, to provide for which it shall hold funds in secure investments equal to such net value, above all its other liabilities; and it shall be the duty of the Commissioner, after having verified, to such an extent as he may deem necessary, the valuation of all policies in force, to satisfy himself that the company has such amount in safe legal securities after all other debts and claims against it have been provided for.

"The reserve liability for variable contracts defined in Section 238 shall be established in accordance with actuarial procedures that recognize the variable nature of the benefits provided, and shall be approved by the Commissioner.

"SEC. 218. Every life insurance company, conducted on the mutual plan or a plan in which policyholders are by the terms of their policies entitled to share in the profits or surplus shall, on all policies of life insurance heretofore or hereafter issued, under the conditions of which the distribution of surplus is deferred to a fixed or specified time and contingent

upon the policy being in force and the insured living at that time, annually ascertain the amount of the surplus to which all such policies as a separate class are entitled, and shall annually apportion to such policies as a class the amount of the surplus so ascertained, and carry the amount of such apportioned surplus, plus the actual interest earnings and accretions to such fund, as a distinct and separate liability to such class of policies on and for which the same was accumulated, and no company or any of its officers shall be permitted to use any part of such apportioned surplus fund for any purpose whatsoever other than for the express purpose for which the same was accumulated.

"SEC. 219. Every insurance company, other than life, shall maintain a reserve for unearned premiums on its policies in force, which shall be charged as a liability in any determination of its financial condition. Such reserve shall be calculated based on the twenty-fourth (24th) method.

"SEC. 220. In addition to its liabilities and reserves on contracts of insurance issued by it, every insurance company shall be charged with the estimated amount of all of its other liabilities, including taxes, expenses and other obligations due or accrued at the date of statement, and including any special reserves required by the Commissioner pursuant to the provisions of this Code.

TITLE 6

"LIMIT OF SINGLE RISK

"SEC. 221. No insurance company other than life, whether foreign or domestic, shall retain any risk on any one subject of insurance in an amount exceeding twenty percent (20%) of its net worth. For purposes of this section, the term *subject of insurance* shall include all properties or risks insured by the same insurer that customarily are considered by non-life company underwriters to be subject to loss or damage from the same occurrence of any hazard insured against.

"The Commissioner may issue regulations providing for a maximum limit on the overall retained risks of insurers to serve as a catastrophe cover requirement for the same.

"Reinsurance ceded as authorized under the succeeding title shall be deducted in determining the risk retained. As to surety risk, deduction shall also be made of the amount assumed by any other company authorized to transact surety business and the value of any security mortgaged, pledged, or held subject to the surety's control and for the surety's protection.

"TITLE 7

"REINSURANCE TRANSACTIONS

"SEC. 222. An insurance company doing business in the Philippines may accept reinsurances only of such risks, and retain risk thereon within such limits, as it is otherwise authorized to insure.

"SEC. 223. No insurance company doing business in the Philippines shall cede all or part of any risks situated in the Philippines by way of reinsurance directly to any foreign insurer not authorized to do business in the Philippines unless such foreign insurer or, if the services of a nonresident broker are utilized, such nonresident broker is represented in the Philippines by a resident agent duly registered with the Commissioner as required in this Code.

"The resident agent of such unauthorized foreign insurer or nonresident broker shall immediately upon registration furnish the Commissioner with the annual statement of such insurer, or of such company or companies where such broker may place Philippine business as of the year preceding such registration, and annually thereafter as soon as available.

"SEC. 224. All insurance companies, both life and non-life, authorized to do business in the Philippines shall cede their excess risks to other companies similarly authorized to do business in the Philippines in such amounts and under such

arrangements as would be consistent with sound underwriting practices before they enter into reinsurance arrangements with unauthorized foreign insurers.

"SEC. 225. Any insurance company doing business in the Philippines desiring to cede their excess risks to foreign insurance or reinsurance companies not authorized to transact business in the Philippines may do so under such terms and conditions which the Commissioner may prescribe.

"Should any reinsurance agreement be for any reason cancelled or terminated, the ceding company concerned shall inform the Commissioner in writing of such cancellation or termination within thirty (30) days from the date of such cancellation or termination or from the date notice or information of such cancellation or termination is received by such company as the case may be.

"SEC. 226. Every insurance company authorized to do business in the Philippines shall report to the Commissioner on forms prescribed by him the particulars of reinsurance treaties or any new treaties or changes in existing treaties within three (3) months from their effectivity.

"SEC. 227. No credit shall be allowed as an admitted asset or as a deduction from liability, to any ceding insurer for reinsurance made, ceded, renewed, or otherwise becoming effective after January 1, 1975, unless the reinsurance shall be payable by the assuming insurer on the basis of the liability of the ceding insurer under the contract or contracts reinsured without diminution because of the insolvency of the ceding insurer nor unless under the contract or contracts of reinsurance the liability for such reinsurance is assumed by the assuming insurer or insurers as of the same effective date; nor unless the reinsurance agreement provides that payments by the assuming insurer shall be made directly to the ceding insurer or to its liquidator, receiver, or statutory successor except:

"(a) Where the contract specifically provides another payee of such reinsurance in the event of the insolvency of the ceding insurer; and

"(b) Where the assuming insurer with the consent of the direct insured or insureds has assumed such policy obligations of the ceding insurer as direct obligations of the assuming insurer to the payees under such policies and in substitution for the obligations of the ceding insurer to such payees.

"SEC. 228. No life insurance company doing business in the Philippines shall reinsure its whole risk on any individual life or joint lives, or substantially all of its insurance in force, without having first obtained the written permission of the Commissioner.

"TITLE 8

"ANNUAL STATEMENT

"SEC. 229. Every insurance company doing business in the Philippines shall terminate its fiscal period on the thirty-first day of December every year, and shall annually on or before the thirtieth day of April of each year render to the Commissioner a statement signed and sworn to by the chief officer of such company showing, in such form and details as may be prescribed by the Commissioner, the exact condition of its affairs on the preceding thirty-first day of December.

"The annual statement shall be prepared in accordance with the financial reporting framework as determined by the Commissioner. In addition, the Commissioner may require other relevant information. The form and details of such other relevant information shall be prescribed by the Commissioner and shall form part of the supplementary schedules to the annual statement.

"Any entry in the statement which is found to be false shall constitute a misdemeanor and the officer signing such statement shall be subject to the penalty provided for under Section 442.

"SEC. 230. Every insurance company authorized under Title 10 of this chapter to issue, deliver or use variable contracts shall annually file with the Commissioner separate annual statement of its separate variable accounts. Such statement shall be on a form prescribed or approved by the Commissioner and shall include details as to all of the income, disbursements, assets and liability items of and associated with the said separate variable accounts. Said statement shall be under oath of two (2) officers of the company and shall be filed simultaneously with the annual statement required by the preceding section.

"SEC. 231. Within thirty (30) days after receipt of the annual statement approved by the Commissioner, every insurance company doing business in the Philippines shall publish in a newspaper of general circulation, a full synopsis of its annual financial statement showing fully the conditions of its business, and setting forth its resources and liabilities in accordance with such form prescribed by the Commissioner.

"The Commissioner shall have the authority to make, amend, and rescind such accounting rules and regulations as may be necessary to carry out the provisions of this Code, and define accounting, technical and trade terms used in this Code: *Provided*, That such shall be in accordance with internationally accepted accounting standards. Among other things, the Commissioner may prescribe the form or forms in which required information shall be set forth, the items or details to be shown in the balance sheet and income statement, and the methods to be followed in the preparation of accounts, appraisal or valuation of assets and liabilities, determination of recurring and nonrecurring income, differentiation of investment and operating income, and in the preparation, where the Commissioner deems it necessary or desirable, of consolidated balance sheets or income accounts of any person directly or indirectly controlling or controlled by the insurance company.

"TITLE 9
"POLICY FORMS

"SEC. 232. No policy, certificate or contract of insurance shall be issued or delivered within the Philippines unless in the form previously approved by the Commissioner, and no application form shall be used with, and no rider, clause, warranty or endorsement shall be attached to, printed or stamped upon such policy, certificate or contract unless the form of such application, rider, clause, warranty or endorsement has been approved by the Commissioner.

"SEC. 233. In the case of individual life or endowment insurance, the policy shall contain in substance the following conditions:

"(a) A provision that the policyholder is entitled to a grace period either of thirty (30) days or of one (1) month within which the payment of any premium after the first may be made, subject at the option of the insurer to an interest charge not in excess of six percent (6%) per annum for the number of days of grace elapsing before the payment of the premium, during which period of grace the policy shall continue in full force, but in case the policy becomes a claim during the said period of grace before the overdue premium is paid, the amount of such premium with interest may be deducted from the amount payable under the policy in settlement;

"(b) A provision that the policy shall be incontestable after it shall have been in force during the lifetime of the insured for a period of two (2) years from its date of issue as shown in the policy, or date of approval of last reinstatement, except for nonpayment of premium and except for violation of the conditions of the policy relating to military or naval service in time of war;

"(c) A provision that the policy shall constitute the entire contract between the parties, but if the company desires to make the application a part of the contract it may do so provided a copy of such application

shall be indorsed upon or attached to the policy when issued, and in such case the policy shall contain a provision that the policy and the application therefor shall constitute the entire contract between the parties;

"(d) A provision that if the age of the insured is considered in determining the premium and the benefits accruing under the policy, and the age of the insured has been misstated, the amount payable under the policy shall be such as the premium would have purchased at the correct age;

"(e) If the policy is participating, a provision that the company shall periodically ascertain and apportion any divisible surplus accruing on the policy under conditions specified therein;

"(f) A provision specifying the options to which the policyholder is entitled to in the event of default in a premium payment after three (3) full annual premiums shall have been paid. Such option shall consist of:

"(1) A cash surrender value payable upon surrender of the policy which shall not be less than the reserve on the policy, the basis of which shall be indicated, for the then current policy year and any dividend additions thereto, reduced by a surrender charge which shall not be more than one-fifth (1/5) of the entire reserve or two and one-half percent (2½%) of the amount insured and any dividend additions thereto; and

"(2) One or more paid-up benefits on a plan or plans specified in the policy of such value as may be purchased by the cash surrender value.

"(g) A provision that at any time after a cash surrender value is available under the policy and while the policy is in force, the company will advance, on proper assignment or pledge of the policy and on sole security thereof, a sum equal to, or at the option of the owner of the policy, less than the cash surrender value on the policy, at a specified rate of interest, not more than the maximum allowed by

law, to be determined by the company from time to time, but not more often than once a year, subject to the approval of the Commissioner; and that the company will deduct from such loan value any existing indebtedness on the policy and any unpaid balance of the premium for the current policy year, and may collect interest in advance on the loan to the end of the current policy year, which provision may further provide that such loan may be deferred for not exceeding six (6) months after the application therefor is made;

"(h) A table showing in figures cash surrender values and paid-up options available under the policy each year upon default in premium payments, during at least twenty (20) years of the policy beginning with the year in which the values and options first become available, together with a provision that in the event of the failure of the policyholder to elect one of the said options within the time specified in the policy, one of said options shall automatically take effect and no policyholder shall ever forfeit his right to same by reason of his failure to so elect;

"(i) In case the proceeds of a policy are payable in installments or as an annuity, a table showing the minimum amounts of the installments or annuity payments;

"(j) A provision that the policyholder shall be entitled to have the policy reinstated at any time within three (3) years from the date of default of premium payment unless the cash surrender value has been duly paid, or the extension period has expired, upon production of evidence of insurability satisfactory to the company and upon payment of all overdue premiums and any indebtedness to the company upon said policy, with interest rate not exceeding that which would have been applicable to said premiums and indebtedness in the policy years prior to reinstatement.

"Any of the foregoing provisions or portions thereof not applicable to single premium or term policies shall to that extent not be incorporated therein; and any such policy may be issued and delivered in the Philippines which in the opinion of the Commissioner contains provisions on any one or more of the foregoing requirements more favorable to the policyholder than hereinbefore required.

"This section shall not apply to policies of group life or industrial life insurance.

"SEC. 234. No policy of group life insurance shall be issued and delivered in the Philippines unless it contains in substance the following provisions, or provisions which in the opinion of the Commissioner are more favorable to the persons insured, or at least as favorable to the persons insured and more favorable to the policyholders:

"(a) A provision that the policyholder is entitled to a grace period of either thirty (30) days or of one (1) month for the payment of any premium due after the first, during which grace period the death benefit coverage shall continue in force, unless the policyholder shall have given the insurer written notice of discontinuance in advance of the date of discontinuance and in accordance with the terms of the policy. The policy may provide that the policyholder shall be liable for the payment of a *pro rata* premium for the time the policy is in force during such grace period;

"(b) A provision that the validity of the policy shall not be contested, except for nonpayment of premiums after it has been in force for two (2) years from its date of issue; and that no statement made by any insured under the policy relating to his insurability shall be used in contesting the validity of the insurance with respect to which such statement was made after such insurance has been in force prior to the contest for a period of two (2) years during such person's lifetime nor unless contained in a written instrument signed by him;

"(c) A provision that a copy of the application, if any, of the policyholder shall be attached to the policy when issued, that all statements made by the policyholder or by persons insured shall be deemed representations and not warranties, and that no statement made by any insured shall be used in any contest unless a copy of the instrument containing the statement is or has been furnished to such person or to his beneficiary;

"(d) A provision setting forth the conditions, if any, under which the insurer reserves the right to require a person eligible for insurance to furnish evidence of individual insurability satisfactory to the insurer as a condition to part or all of his coverage;

"(e) A provision specifying an equitable adjustment of premiums or of benefits or of both to be made in the event that the age of a person insured has been misstated, such provision to contain a clear statement of the method of adjustment to be used;

"(f) A provision that any sum becoming due by reason of death of the person insured shall be payable to the beneficiary designated by the insured, subject to the provisions of the policy in the event that there is no designated beneficiary, as to all or any part of such sum, living at the death of the insured, and subject to any right reserved by the insurer in the policy and set forth in the certificate to pay at its option a part of such sum not exceeding Five hundred pesos (P500.00) to any person appearing to the insurer to be equitably entitled thereto by reason of having incurred funeral or other expenses incident to the last illness or death of the person insured;

"(g) A provision that the insurer will issue to the policyholder for delivery to each person insured a statement as to the insurance protection to which he is entitled, to whom the insurance benefits are payable, and the rights set forth in paragraphs (h), (i) and (j) following;

"(h) A provision that if the insurance, or any portion of it, on a person covered under the policy ceases because of termination of employment or of membership in the class or classes eligible for coverage under the policy, such person shall be entitled to have issued to him by the insurer, without evidence of insurability, an individual policy of life insurance without disability or other supplementary benefits, provided application for the individual policy and payment of the first premium to the insurer shall be made within thirty (30) days after such termination, and provided further that:

"(1) The individual policy shall be on any one of the forms, except term insurance, then customarily issued by the insurer at the age and for an amount not in excess of the coverage under the group policy; and

"(2) The premium on the individual policy shall be at the insurer's then customary rate applicable to the form and amount of the individual policy, to the class of risk to which such person then belongs, and to his age attained on the effective date of the individual policy.

"(i) A provision that if the group policy terminates or is amended so as to terminate the insurance of any class of insured persons, every person insured thereunder at the date of such termination whose insurance terminates and who has been so insured for five (5) years prior to such termination date shall be entitled to have issued to him by the insurer an individual policy of life insurance subject to the same limitations as set forth in paragraph (h), except that the group policy may provide that the amount of such individual policy shall not exceed the amount of the person's life insurance protection ceasing;

"(j) A provision that if a person insured under the group policy dies during the thirty (30)-day period within which he would have been entitled to an individual policy issued to him in accordance with paragraphs (h) and (i) above and before such individual policy shall have become effective, the amount of life insurance which he would have been

entitled to have issued to him as an individual policy shall be payable as a claim under the group policy whether or not application for the individual policy or the payment of the first premium has been made;

"(k) In the case of a policy issued to a creditor to insure debtors of such creditor, a provision that the insurer will furnish to the policyholder for delivery to each debtor insured under the policy a form which will contain a statement that the life of the debtor is insured under the policy and that any death benefit paid thereunder by reason of his death shall be applied to reduce or extinguish indebtedness.

"The provisions of paragraphs (f) to (j) shall not apply to policies issued to a creditor to insure his debtors. If a group life policy is on a plan of insurance other than term, it shall contain a non-forfeiture provision or provisions which in the opinion of the Commissioner is or are equitable to the insured or the policyholder: *Provided*, That nothing herein contained shall be so construed as to require group life policies to contain the same non-forfeiture provisions as are required of individual life policies.

"SEC. 235. The term *industrial life insurance* as used in this Code shall mean that form of life insurance under which the premiums are payable either monthly or oftener, if the face amount of insurance provided in any policy is not more than five hundred times that of the current statutory minimum daily wage in the City of Manila, and if the words *industrial policy* are printed upon the policy as part of the descriptive matter.

"An industrial life policy shall not lapse for nonpayment of premium if such nonpayment was due to the failure of the company to send its representative or agent to the insured at the residence of the insured or at some other place indicated by him for the purpose of collecting such premium: *Provided*, That the provisions of this paragraph shall not apply when the premium on the policy remains unpaid for a period of three (3) months or twelve (12) weeks after the grace period has expired.

"SEC. 236. In the case of industrial life insurance, the policy shall contain in substance the following provisions:

"(a) A provision that the insured is entitled to a grace period of four (4) weeks within which the payment of any premium after the first may be made, except that where premiums are payable monthly, the period of grace shall be either one (1) month or thirty (30) days; and that during the period of grace, the policy shall continue in full force, but if during such grace period the policy becomes a claim, then any overdue and unpaid premiums may be deducted from any amount payable under the policy in settlement;

"(b) A provision that the policy shall be incontestable after it has been in force during the lifetime of the insured for a specified period, not more than two (2) years from its date of issue, except for nonpayment of premiums and except for violation of the conditions of the policy relating to naval or military service, or services auxiliary thereto, and except as to provisions relating to benefits in the event of disability as defined in the policy, and those granting additional insurance specifically against death by accident or by accidental means, or to additional insurance against loss of, or loss of use of, specific members of the body;

"(c) A provision that the policy shall constitute the entire contract between the parties, or if a copy of the application is endorsed upon and attached to the policy when issued, a provision that the policy and the application therefor shall constitute the entire contract between the parties, and in the latter case, a provision that all statements made by the insured shall, in the absence of fraud, be deemed representations and not warranties;

"(d) A provision that if the age of the person insured, or the age of any person, considered in determining the premium, or the benefits accruing under the policy, has been misstated, any amount payable or benefit accruing under the policy shall be such as the premium paid would have purchased at the correct age;

"(e) A provision that if the policy is a participating policy, the company shall periodically ascertain and apportion any divisible surplus accruing on the policy under the conditions specified therein;

"(f) A provision that in the event of default in premium payments after three (3) full years' premiums have been paid, the policy shall be converted into a stipulated form of insurance, and that in the event of default in premium payments after five (5) full years' premiums have been paid, a specified cash surrender value shall be available, in lieu of the stipulated form of insurance, at the option of the policyholder. The net value of such stipulated form of insurance and the amount of such cash value shall not be less than the reserve on the policy and dividend additions thereto, if any, at the end of the last completed policy year for which premiums shall have been paid (the policy to specify the mortality table, rate of interest and method of valuation adopted to compute such reserve), exclusive of any reserve on disability benefits and accidental death benefits, less an amount not to exceed two and one-half percent (2½%) of the maximum amount insured by the policy and dividend additions thereto, if any, when the issue age is under ten (10) years, and less an amount not to exceed two and one-half percent (2½%) of the current amount insured by the policy and dividend additions thereto, if any, if the issue age is ten (10) years or older, and less any existing indebtedness to the company on or secured by the policy;

"(g) A provision that the policy may be surrendered to the company at its home office within a period of not less than sixty (60) days after the due date of a premium in default for the specified cash value: *Provided*, That the insurer may defer payment for not more than six (6) months after the application therefor is made;

"(h) A table that shows in figures the nonforfeiture benefits available under the policy every year upon default in payment of premiums during at least the first twenty (20) years of the policy, such

table to begin with the year in which such values become available, and a provision that the company will furnish upon request an extension of such table beyond the year shown in the policy;

"(i) A provision that specifies which one of the stipulated forms of insurance provided for under the provision of paragraph (f) of this section shall take effect in the event of the insured's failure, within sixty (60) days from the due date of the premium in default, to notify the insurer in writing as to which one of such forms he has selected;

"(j) A provision that the policy may be reinstated at any time within two (2) years from the due date of the premium in default unless the cash surrender value has been paid or the period of extended term insurance expired, upon production of evidence of insurability satisfactory to the company and payment of arrears of premiums with interest at a rate not exceeding six percent (6%) per annum payable annually;

"(k) A provision that when a policy shall become a claim by death of the insured, settlement shall be made upon receipt of due proof of death, or not later than two (2) months after receipt of such proof;

"(l) A title on the face and on the back of the policy correctly describing its form;

"(m) A space on the front or the back of the policy for the name of the beneficiary designated by the insured with a reservation of the insured's right to designate or change the beneficiary after the issuance of the policy. The policy may also provide that no designation or change of beneficiary shall be binding on the insurer until endorsed on the policy by the insurer, and that the insurer may refuse to endorse the name of any proposed beneficiary who does not appear to the insurer to have an insurable interest in the life of the insured. Such policy may also contain a provision that if the beneficiary designated in the policy does not surrender the policy with due proof of death within the period stated in

the policy, which shall not be less than thirty (30) days after the death of the insured, or if the beneficiary is the estate of the insured, or is a minor, or dies before the insured, or is not legally competent to give valid release, then the insurer may make any payment thereunder to the executor or administrator of the insured, or to any of the insured's relatives by blood or legal adoption or connections by marriage or to any person appearing to the insurer to be equitably entitled thereto by reason of having incurred expense for the maintenance, medical attention or burial of the insured; and

"(n) A provision that when an industrial life insurance policy is issued providing for accidental or health benefits, or both, in addition to life insurance, the foregoing provisions shall apply only to the life insurance portion of the policy.

"Any of the foregoing provisions or portions thereof not applicable to nonparticipating or term policies shall to that extent not be incorporated therein. The foregoing provisions shall not apply to policies issued or granted pursuant to the nonforfeiture provisions prescribed in provisions of paragraphs (f) and (i) of this section, nor shall provisions of paragraphs (f), (g), (h), and (i) hereof be required in term insurance of twenty (20) years or less but such term policies shall specify the mortality table, rate of interest, and method of computing reserves.

"SEC. 237. No policy of industrial life insurance shall be issued or delivered in the Philippines if it contains any of the following provisions:

"(a) A provision that gives the insurer the right to declare the policy void because the insured has had any disease or ailment, whether specified or not, or because the insured has received institutional, hospital, medical or surgical treatment or attention, except a provision which gives the insurer the right

to declare the policy void if the insured has, within two (2) years prior to the issuance of the policy, received institutional, hospital, medical or surgical treatment or attention and if the insured or the claimant under the policy fails to show that the condition occasioning such treatment or attention was not of a serious nature or was not material to the risk;

"(b) A provision that gives the insurer the right to declare the policy void because the insured has been rejected for insurance, unless such right be conditioned upon a showing by the insurer that knowledge of such rejection would have led to a refusal by the insurer to make such contract;

"(c) A provision that allows the company to pay the proceeds of the policy at the death of the insured to any person other than the named beneficiary, except in accordance with a standard provision as specified under the provisions of paragraph (m) of the preceding section;

"(d) A provision that limits the time within which any action at law or in equity may be commenced to less than six (6) years after the cause of action shall accrue; and

"(e) A provision that specifies any mode of settlement at maturity of less value than the amount insured by the policy plus dividend additions, if any, less any indebtedness to the company on the policy and less any premium that may by the terms of the policy be deducted, payments to be made in accordance with the terms of the policy.

"Nothing contained in this section nor in the provision of paragraph (b) of the preceding section, relating to incontestability, shall be construed as prohibiting the life insurance company from placing in its industrial life policies provisions limiting its liability with respect to:

"(1) Death resulting from aviation other than as a fare-paying passenger on a regularly scheduled route between definitely established airports; and

"(2) Military or naval service: *Provided*, That if the liability of the company is limited as herein provided, such liability shall in no event be fixed at an amount less than the reserve on the policy (excluding the reserve for any additional benefits in the event of death by accident or accidental means or for benefits in the event of any type of disability), less any indebtedness on or secured by such policy; nor shall any provision of this section apply to any provision in an industrial life insurance policy for additional benefits in the event of death by accident or accidental means.

"TITLE 10

"VARIABLE CONTRACTS

"SEC. 238. (a) No insurance company authorized to transact business in the Philippines shall issue, deliver, sell or use any variable contract in the Philippines, unless and until such company shall have satisfied the Commissioner that its financial and general condition and its methods of operations, including the issue and sale of variable contracts, are not and will not be hazardous to the public or to its policy and contract owners. No foreign insurance company shall be authorized to issue, deliver or sell any variable contract in the Philippines, unless it is likewise authorized to do so by the laws of its domicile.

"(b) The term *variable contract* shall mean any policy or contract on either a group or on an individual basis issued by an insurance company providing for benefits or other contractual payments or values thereunder to vary so as to reflect investment results of any segregated portfolio of investments or of a designated separate account in which amounts received in connection with such contracts shall have been placed and accounted for separately and apart from other investments and accounts. This contract may also provide benefits or values incidental thereto payable

in fixed or variable amounts, or both. It shall not be deemed to be a security or securities as defined in The Securities Act, as amended, or in the Investment Company Act, as amended, nor subject to regulations under said Acts.

"(c) In determining the qualifications of a company requesting authority to issue, deliver, sell or use variable contracts, the Commissioner shall always consider the following:

"(1) The history, financial and general condition of the company: *Provided*, That such company, if a foreign company, must have deposited with the Commissioner for the benefit and security of its variable contract owners in the Philippines, securities satisfactory to the Commissioner consisting of bonds of the Government of the Philippines or its instrumentalities with an actual market value of Two million pesos (P2,000,000.00);

"(2) The character, responsibility and fitness of the officers and directors of the company; and

"(3) The law and regulation under which the company is authorized in the state of domicile to issue such contracts.

"(d) If after notice and hearing, the Commissioner shall find that the company is qualified to issue, deliver, sell or use variable contracts in accordance with this Code and the regulations and rules issued thereunder, the corresponding order of authorization shall be issued. Any decision or order denying authority to issue, deliver, sell or use variable contracts shall clearly and distinctly state the reasons and grounds on which it is based.

"SEC. 239. Any insurance company issuing variable contracts pursuant to this Code may in its discretion issue contracts providing a combination of fixed amount and variable amount of benefits and for option lump-sum payment of benefits.

"SEC. 240. Every variable contract form delivered or issued for delivery in the Philippines, and every certified form evidencing variable benefits issued pursuant to any such contract on a group basis, and the application, rider and endorsement forms applicable thereto and used in connection therewith, shall be subject to the prior approval of the Commissioner.

"SEC. 241. Illustration of benefits payable under any variable contract shall not include or involve projections of past investment experience into the future and shall conform with the rules and regulations promulgated by the Commissioner.

"SEC. 242. Variable contracts may be issued on the industrial life basis, provided that the pertinent provisions of this Code and of the rules and regulations of the Commissioner governing variable contracts are complied with in connection with such contracts.

"SEC. 243. Every life insurance company authorized under the provisions of this Code to issue, deliver, sell or use variable contracts shall, in connection with the same, establish one or more separate accounts to be known as separate variable accounts. All amounts received by the company in connection with any such contracts which are required by the terms thereof, to be allocated or applied to one or more designated separate variable accounts shall be placed in such designated account or accounts. The assets and liabilities of each such separate variable account shall at all times be clearly identifiable and distinguishable from the assets and liabilities in all other accounts of the company. Notwithstanding any provision of law to the contrary, the assets held in any such separate variable account shall not be chargeable with liabilities arising out of any other business the company may conduct but shall be held and applied exclusively for the benefit of the owners or beneficiaries of the variable contracts applicable thereto. In the event of the insolvency of the company, the assets of each such separate variable

account shall be applied to the contractual claims of the owners or beneficiaries of the variable contracts applicable thereto. Except as otherwise specifically provided by the contract, no sale, exchange or other transfer of assets may be made by a company, between any of its separate accounts or between any other investment account and one or more of its separate accounts, unless in the case of a transfer into a separate account, such transfer is made solely to establish the account or to support the operation of the contracts with respect to the separate account to which the transfer is made, or in case of a transfer from a separate account, such transfer would not cause the remaining assets of the account to become less than the reserves and other contract liabilities with respect to such separate account. Such transfer, whether into or from a separate account, shall be made by a transfer of cash, or by a transfer of securities having a valuation which could be readily determined in the market place: *Provided*, That such transfer of securities is approved by the Commissioner. The Commissioner may authorize other transfers among such accounts, if, in his opinion, such transfers would not be inequitable. All amounts and assets allocated to any such separate variable account shall be owned by the company and with respect to the same the company shall not be nor hold itself out to be a trustee.

"SEC. 244. Any insurance company which has established one or more separate variable accounts pursuant to the preceding section may invest and reinvest all or any part of the assets allocated to any such account in the securities and investments authorized by Sections 204, 206, 207 and 208 for any of the funds of an insurance company in such amount or amounts as may be approved by the Commissioner. In addition thereto, such company may also invest in common stocks or other equities which are listed on or admitted to trading in a securities exchange located in the Philippines, or which are publicly held and

traded in the over-the-counter market as defined by the Commissioner and as to which market quotations have been available: *Provided, however*, That no such company shall invest in excess of ten percent (10%) of the assets of any such separate variable accounts in any one corporation issuing such common stock. The assets and investments of such separate variable accounts shall not be taken into account in applying the quantitative investment limitations applicable to other investments of the company. In the purchase of common capital stock or other equities, the insurer shall designate to the broker, or to the seller if the purchase is not made through a broker, the specific variable account for which the investment is made.

"SEC. 245. Assets allocated to any separate variable account shall be valued at their market value on the date of any valuation, or if there is no readily available market value then in accordance with the terms of the variable contract applicable to such assets, or if there are no such contract terms then in such manner as may be prescribed by the rules and regulations of the Commissioner.

"SEC. 246. The reserve liability for variable contracts shall be established in accordance with actuarial procedures that recognize the variable nature of the benefits provided, and shall be approved by the Commissioner.

"TITLE 11

"CLAIMS SETTLEMENT

"SEC. 247. (a) No insurance company doing business in the Philippines shall refuse, without just cause, to pay or settle claims arising under coverages provided by its policies, nor shall any such company engage in unfair claim settlement practices. Any of the following acts by an insurance company, if committed without just cause and performed with such frequency as to indicate a general business practice, shall constitute unfair claim settlement practices:

"(1) Knowingly misrepresenting to claimants pertinent facts or policy provisions relating to coverage at issue;

"(2) Failing to acknowledge with reasonable promptness pertinent communications with respect to claims arising under its policies;

"(3) Failing to adopt and implement reasonable standards for the prompt investigation of claims arising under its policies;

"(4) Not attempting in good faith to effectuate prompt, fair and equitable settlement of claims submitted in which liability has become reasonably clear; or

"(5) Compelling policyholders to institute suits to recover amounts due under its policies by offering without justifiable reason substantially less than the amounts ultimately recovered in suits brought by them.

"(b) Evidence as to numbers and types of valid and justifiable complaints to the Commissioner against an insurance company, and the Commissioner's complaint experience with other insurance companies writing similar lines of insurance shall be admissible in evidence in an administrative or judicial proceeding brought under this section.

"(c) If it is found, after notice and an opportunity to be heard, that an insurance company has violated this section, each instance of noncompliance with paragraph (a) may be treated as a separate violation of this section and shall be considered sufficient cause for the suspension or revocation of the company's certificate of authority.

"SEC. 248. The proceeds of a life insurance policy shall be paid immediately upon maturity of the policy, unless such proceeds are made payable in installments or as an annuity, in which case the installments, or annuities shall be paid as they become due: *Provided, however,* That in the case

of a policy maturing by the death of the insured, the proceeds thereof shall be paid within sixty (60) days after presentation of the claim and filing of the proof of death of the insured. Refusal or failure to pay the claim within the time prescribed herein will entitle the beneficiary to collect interest on the proceeds of the policy for the duration of the delay at the rate of twice the ceiling prescribed by the Monetary Board, unless such failure or refusal to pay is based on the ground that the claim is fraudulent.

"The proceeds of the policy maturing by the death of the insured payable to the beneficiary shall include the discounted value of all premiums paid in advance of their due dates, but are not due and payable at maturity.

"SEC. 249. The amount of any loss or damage for which an insurer may be liable, under any policy other than life insurance policy, shall be paid within thirty (30) days after proof of loss is received by the insurer and ascertainment of the loss or damage is made either by agreement between the insured and the insurer or by arbitration; but if such ascertainment is not had or made within sixty (60) days after such receipt by the insurer of the proof of loss, then the loss or damage shall be paid within ninety (90) days after such receipt. Refusal or failure to pay the loss or damage within the time prescribed herein will entitle the assured to collect interest on the proceeds of the policy for the duration of the delay at the rate of twice the ceiling prescribed by the Monetary Board, unless such failure or refusal to pay is based on the ground that the claim is fraudulent.

"SEC. 250. In case of any litigation for the enforcement of any policy or contract of insurance, it shall be the duty of the Commissioner or the Court, as the case may be, to make a finding as to whether the payment of the claim of the insured has been unreasonably denied or withheld; and in the affirmative case, the insurance company shall be adjudged to pay damages which shall consist of

attorney's fees and other expenses incurred by the insured person by reason of such unreasonable denial or withholding of payment plus interest of twice the ceiling prescribed by the Monetary Board of the amount of the claim due the insured, from the date following the time prescribed in Section 248 or in Section 249, as the case may be, until the claim is fully satisfied: *Provided*, That failure to pay any such claim within the time prescribed in said sections shall be considered *prima facie* evidence of unreasonable delay in payment.

"SEC. 251. It is unlawful to:

"(a) Present or cause to be presented any fraudulent claim for the payment of a loss under a contract of insurance; and

"(b) Fraudulently prepare, make or subscribe any writing with intent to present or use the same, or to allow it to be presented in support of any such claim. Any person who violates this section shall be punished by a fine not exceeding twice the amount claimed or imprisonment of two (2) years, or both, at the discretion of the court.

"TITLE 12

"EXAMINATION OF COMPANIES

"SEC. 252. The Commissioner shall require every insurance company doing business in the Philippines to keep its books, records, accounts and vouchers in such manner that he or his authorized representatives may readily verify its annual statements and ascertain whether the company is solvent and has complied with the provisions of this Code or the circulars, instructions, rulings or decisions of the Commissioner.

"SEC. 253. The Commissioner shall at least once a year and whenever he considers the public interest so demands, cause an examination to be made into the affairs, financial condition and method of business of every insurance company authorized to transact business in the Philippines and of any other person, firm or corporation managing the affairs

and/or property of such insurance company. Such company, as well as such managing person, firm or corporation, shall submit to the examiner all such books, papers and securities as he may require and such examiner shall also have the power to examine the officers of such company under oath touching its business and financial condition, and the authority to transact business in the Philippines of any such company shall be suspended by the Commissioner if such examination is refused and such company shall not thereafter be allowed to transact further business in the Philippines until it has fully complied with the provisions of this section.

"Government-owned or -controlled corporations or entities engaged in social or private insurance shall similarly be subject to such examination by the Commissioner unless their respective charters otherwise provide.

"TITLE 13

"SUSPENSION OR REVOCATION OF AUTHORITY

"SEC. 254. If the Commissioner is of the opinion upon examination of other evidence that any domestic or foreign insurance company is in an unsound condition, or that it has failed to comply with the provisions of law or regulations obligatory upon it, or that its condition or method of business is such as to render its proceedings hazardous to the public or to its policyholders, or that its net worth requirement, in the case of a domestic stock company, or its available cash assets, in the case of a domestic mutual company, or its security deposits, in the case of a foreign company, is impaired or deficient, or that the margin of solvency required of such company is deficient, the Commissioner is authorized to suspend or revoke all certificates of authority granted to such insurance company, its officers and agents, and no new business shall thereafter be done by such company or for such company by its agent in the Philippines while such suspension, revocation or disability continues or until its authority to do business

is restored by the Commissioner. Before restoring such authority, the Commissioner shall require the company concerned to submit to him a business plan showing the company's estimated receipts and disbursements, as well as the basis therefor, for the next succeeding three (3) years.

"TITLE 14

"APPOINTMENT OF CONSERVATOR

"SEC. 255. If at any time before, or after, the suspension or revocation of the certificate of authority of an insurance company as provided in the preceding title, the Commissioner finds that such company is in a state of continuing inability or unwillingness to maintain a condition of solvency or liquidity deemed adequate to protect the interest of policyholders and creditors, he may appoint a conservator to take charge of the assets, liabilities, and the management of such company, collect all moneys and debts due to said company and exercise all powers necessary to preserve the assets of said company, reorganize the management thereof, and restore its viability. The said conservator shall have the power to overrule or revoke the actions of the previous management and board of directors of the said company, any provision of law, or of the articles of incorporation or bylaws of the company, to the contrary notwithstanding, and such other powers as the Commissioner shall deem necessary.

"The conservator may be another insurance company doing business in the Philippines, any officer or officers of such company, or any other competent and qualified person, firm or corporation. The remuneration of the conservator and other expenses attendant to the conservation shall be borne by the insurance company concerned.

"The conservator shall not be subject to any action, claim or demand by, or liability to, any person in respect of anything done or omitted to be done in good faith in the exercise, or in connection with the exercise, of the powers conferred on the conservator.

"The conservator appointed shall report and be responsible to the Commissioner until such time as the Commissioner is satisfied that the insurance company can continue to operate on its own and the conservatorship shall likewise be terminated should the Commissioner, on the basis of the report of the conservator or of his own findings, determine that the continuance in business of the insurance company would be hazardous to policyholders and creditors, in which case the provisions of Title 15 shall apply.

"No insurance company, life or non-life, or any professional reinsurer, ordered to be liquidated by the Commissioner under the provisions hereunder may be rehabilitated or authorized to transact anew, insurance or reinsurance business, as the case may be.

"TITLE 15

"PROCEEDINGS UPON INSOLVENCY

"SEC. 256. Whenever, upon examination or other evidence, it shall be disclosed that the condition of any insurance company doing business in the Philippines is one of insolvency, or that its continuance in business would be hazardous to its policyholders and creditors, the Commissioner shall forthwith order the company to cease and desist from transacting business in the Philippines and shall designate a receiver to immediately take charge of its assets and liabilities, as expeditiously as possible collect and gather all the assets and administer the same for the benefit of its policyholders and creditors, and exercise all the powers necessary for these purposes including, but not limited to, bringing suits and foreclosing mortgages in the name of the insurance company.

"The Commissioner shall thereupon determine within ninety (90) days whether the insurance company may be reorganized or otherwise placed in such condition so that it may be permitted to resume business with safety to its policyholders and creditors and shall prescribe the

conditions under which such resumption of business shall take place as well as the time for fulfillment of such conditions. In such case, the expenses and fees in the collection and administration of the insurance company shall be determined by the Commissioner and shall be paid out of the assets of such company.

"If the Commissioner shall determine and confirm within the said period that the insurance company is insolvent, as defined hereunder, or cannot resume business with safety to its policyholders and creditors, he shall, if the public interest requires, order its liquidation, indicate the manner of its liquidation and approve a liquidation plan and implement it immediately. The Commissioner shall designate a competent and qualified person as liquidator who shall take over the functions of the receiver previously designated and, with all convenient speed, reinsure all its outstanding policies, convert the assets of the insurance company to cash, or sell, assign or otherwise dispose of the same to the policyholders, creditors and other parties for the purpose of settling the liabilities or paying the debts of such company and he may, in the name of the company, institute such actions as may be necessary in the appropriate court to collect and recover accounts and assets of the insurance company, and to do such other acts as may be necessary to complete the liquidation as ordered by the Commissioner.

"The provisions of any law to the contrary notwithstanding, the actions of the Commissioner under this section shall be final and executory, and can be set aside by the court upon petition by the company and only if there is convincing proof that the action is plainly arbitrary and made in bad faith. The Commissioner, through the Solicitor General, shall then file the corresponding answer reciting the proceeding taken and praying the assistance of the court in the liquidation of the company. No restraining

order or injunction shall be issued by the court enjoining the Commissioner from implementing his actions under this section, unless there is convincing proof that the action of the Commissioner is plainly arbitrary and made in bad faith and the petitioner or plaintiff files with the Clerk or Judge of the Court in which the action is pending a bond executed in favor of the Commissioner in an amount to be fixed by the court. The restraining order or injunction shall be refused or, if granted, shall be dissolved upon filing by the Commissioner, if he so desires, of a bond in an amount twice the amount of the bond of the petitioner or plaintiff conditioned that it will pay the damages which the petitioner or plaintiff may suffer by the refusal or the dissolution of the injunction. The provisions of Rule 58 of the New Rules of Court insofar as they are applicable shall govern the issuance and dissolution of the restraining order or injunction contemplated in this section.

"All proceedings under this title shall be given preference in the courts. The Commissioner shall not be required to pay any fee to any public officer for filing, recording, or in any manner authenticating any paper or instrument relating to the proceedings.

"As used in this title, the term *Insolvency* shall mean the inability of an insurance company to pay its lawful obligations as they fall due in the usual and ordinary course of business as may be shown by its failure to maintain the solvency requirements under Section 200 of this Code.

"SEC. 257. The receiver or the liquidator, as the case may be, designated under the provisions of this title, shall not be subject to any action, claim or demand by, or liability to, any person in respect of anything done or omitted to be done in good faith in the exercise, or in connection with the exercise, of the powers conferred on such receiver or liquidator.

"TITLE 16

"CONSOLIDATION AND MERGER OF
INSURANCE COMPANIES

"SEC. 258. Upon prior notice to the Commissioner, two (2) or more domestic insurance companies, acting through their respective boards of directors, may negotiate to merge into a single corporation which shall be one of the constituent corporations, or consolidate into a single corporation which shall be a new corporation to be formed by the consolidation. A common agreement of the proposed merger or consolidation shall be drawn up for submission to the stockholders or members of the constituent companies for adoption and approval in accordance with the provisions of the respective bylaws of the constituent companies and all existing laws that may be pertinent.

"SEC. 259. Such agreement shall include, aside from the proposed merger or consolidation, provisions relative to the manner of transfer of assets to and assumption of liabilities by the absorbing or acquiring company from the absorbed or dissolved company or companies; the proposed articles of merger or consolidation and bylaws of the surviving or acquiring company; the corporate name to be adopted which should not be that of any other existing company transacting similar business or one so similar as to be calculated to mislead the public; the rights of the stockholders or members of the absorbed or dissolved companies; date of effectivity of the merger or consolidation; and such particulars as may be necessary to explain and make manifest the objects and purposes of the absorbing or acquiring company.

"SEC. 260. Upon execution of such agreement to merge or consolidate by and between or among the boards of directors of the constituent companies, notice thereof shall be mailed immediately to their policyholders and creditors. The company or companies to be absorbed or dissolved shall discharge all its accrued liabilities; otherwise, such liabilities shall, with

the consent of its creditors, be transferred to and assumed by the absorbing or acquiring company, or such liabilities be reinsured by the latter. In the case of such policies as are subject to cancellation by the company or companies to be absorbed or dissolved, same may be cancelled pursuant to the terms thereof in lieu of such transfer, assumption, or reinsurance.

"SEC. 261. Upon approval or adoption in the meetings of the stockholders or members called for the purpose in each of the constituent companies of the agreement to merge or consolidate, all stockholders or members dissenting or objecting to the merger or consolidation shall be paid the value of their shares by the company concerned in accordance with the bylaws thereof.

"SEC. 262. Upon approval or adoption of the agreement to merge or consolidate by the stockholders or members of the constituent companies, the corresponding articles of merger or of consolidation shall be duly executed by the presidents and attested by the corporate secretaries and shall bear the corporate seals of the merging or consolidating companies setting forth:

"(a) The plan of merger or the plan of consolidation;

"(b) As to each corporation, the number of shares outstanding, or in case of mutual corporations, the number of members; and

"(c) As to each corporation, the number of shares or members voted for and against such plan, respectively. Thereafter, a certified copy of such articles of merger or consolidation, together with a certificate of approval or adoption by the stockholders or members of such articles of merger or consolidation, verified by affidavits of such officers and under the seal of the constituent companies, shall be submitted to the Commissioner, together with such other papers or documents which the Commissioner may require, for his consideration.

"SEC. 263. The articles of merger or of consolidation, signed and verified as hereinabove required, shall be filed with the Securities and Exchange Commission for its examination and approval.

"SEC. 264. Upon receipt from the Securities and Exchange Commission of the certificate of merger or of consolidation, the constituent companies shall surrender to the Commissioner their respective certificates of authority to transact insurance business. The absorbing or surviving company in case of merger, or the newly formed company in case of consolidation, shall immediately file with the Commissioner the corresponding application for issuance of a new certificate of authority to transact insurance business, together with a certified copy of the certificate of merger or of consolidation, and of the certificate of increase of stocks, if there is any, issued by the Securities and Exchange Commission.

"SEC. 265. Nothing in this title shall be construed to enlarge the powers of the absorbing or surviving company in case of merger, or the newly formed company in case of consolidation, except those conferred by the certificate of merger or of consolidation and the articles of merger or of consolidation, or the amended articles of incorporation, as registered with the Securities and Exchange Commission.

"SEC. 266. No director, officer, or stockholder of any such constituent companies shall receive any fee, commission, compensation, or other valuable consideration whatsoever, directly or indirectly, or in any manner aiding, promoting or assisting in such merger or consolidation.

"SEC. 267. The merger or consolidation of companies under this Code shall be subject to the provisions of the Corporation Code, and, in those cases specified in Republic Act No. 5455, as amended, be further subject to the provisions of said law.

"TITLE 17

"MUTUALIZATION OF STOCK LIFE
INSURANCE COMPANIES

"SEC. 268. Any domestic stock life insurance company doing business in the Philippines may convert itself into an incorporated mutual life insurer. To that end it may provide and carry out a plan for the acquisition of the outstanding shares of its capital stock for the benefit of its policyholders, or any class or classes of its policyholders, by complying with the requirements of this chapter.

"SEC. 269. Such plan shall include appropriate proceedings for amending the insurer's articles of incorporation to give effect to the acquisition, by said insurer, for the benefit of its policyholders or any class or classes thereof, of the outstanding shares of its capital stock and the conversion of the insurer from a stock corporation into a nonstock corporation for the benefit of its members. The members of such nonstock corporation shall be the policyholders from time to time of the class or classes for whose benefit the stock of the insurer was acquired, and the policyholders of such other class or classes as may be specified in such corporation's articles of incorporation as they may be amended from time to time. Such plan shall be:

"(a) Adopted by a vote of a majority of the directors;

"(b) Approved by the vote of the holders of at least a majority of the outstanding shares at a special meeting of shareholders called for that purpose, or by the written consent of such shareholders;

"(c) Submitted to the Commissioner and approved by him in writing;

"(d) Approved by a majority vote of all the policyholders of the class or classes for whose benefit the stock is to be acquired voting at an election by the policyholders called for that purpose, subject to

the provisions of Section 271. The terms *policyholder* or *policyholders* as used in this chapter shall be deemed to mean the person or persons insured under an individual policy of life insurance, or of health and accident insurance, or of any combination of life, health and accident insurance. They shall also include the person or persons to whom any annuity or pure endowment is presently or prospectively payable by the terms of an individual annuity or pure endowment contract, except where the policy or contract declares some other person to be the owner or holder thereof, in which case such other person shall be deemed policyholder. In any case where a policy or contract names two or more persons as joint insured, payees, owners or holders thereof, the persons so named shall be deemed collectively to be one (1) policyholder for the purpose of this chapter. In any case where a policy or contract shall have been assigned by assignment absolute on its face to an assignee other than the insurer, and such assignment shall have been filed at the principal office of the insurer at least thirty (30) days prior to the date of any election or meeting referred to in this chapter, then such assignee shall be deemed at such election or meeting to be the policyholder. For the purpose of this chapter the terms *policyholder* and *policyholders* include the employer to whom, or a president, secretary or other executive officer of any corporation or association to which a master group policy has been issued, but exclude the holders of certificates or policies issued under or in connection with a master group policy. Beneficiaries under unmatured contracts shall not as such be deemed to be policyholders; and

"(e) Filed with the Commissioner after having been approved as provided in this section.

"SEC. 270. The Commissioner shall examine the plan submitted to him under the provisions of subparagraph (c) of Section 269. He shall not approve such plan unless in his opinion the rights and interests of the insurer, its policyholders and

shareholders are protected nor unless he is satisfied that the plan will be fair and equitable in its operation.

"SEC. 271. The election prescribed by subparagraph (d) of Section 269 shall be called by the board of directors or the president, and every policyholder of the class or classes for whose benefit the stock is to be acquired, whose insurance shall have been in force for at least one (1) year prior to such election shall have one vote, regardless of the number of policies or amount of insurance he holds, and regardless of whether such policies are policies of life insurance or policies of health and accident insurance or annuity contracts. Notice of such election shall be given to policyholders entitled to vote by mail from the principal office of such insurer at least thirty (30) days prior to the date set for such election, in a sealed envelope, postage prepaid, addressed to each such policyholder at his last known address.

"Voting shall be by one of the following methods:

"(a) At a meeting of such policyholders, held pursuant to such notice, by ballot in person or by proxy.

"(b) If not by the method described in the preceding subparagraph, then by mail pursuant to a procedure and on forms to be prescribed by such plan.

"Such election shall be conducted under the direction and supervision of three (3) impartial and disinterested inspectors appointed by the insurer and approved by the Commissioner. In case any person appointed as inspector fails to appear at such meeting or fails or refuses to act at such election, the vacancy, if occurring in advance of the convening of the meeting or in advance of the opening of the mail vote, may be filled in the manner prescribed for the appointment of inspectors and, if occurring at the meeting or during the canvass of the mail vote, may be filled by the person acting as chairman of said meeting or designated for that purpose in such plan. The

decision, act or certificate of a majority of the inspectors shall be effective in all respects as the decision, act or certificate of all. The inspectors of election shall determine the number of policyholders, the voting power of each, the policyholders represented at the meeting or voting by mail, the existence of a quorum and the authenticity, validity and effect of proxies. They shall receive votes, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes, determine the result, and do such other acts as are proper to conduct the vote with fairness to all policyholders. The inspectors of election shall, before commencing performance of their duties, subscribe to and file with the insurer and with the Commissioner an oath that they, and each of them, will perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practicable. On the request of the insurer, the Commissioner, a policyholder or his proxy, the inspectors shall make a report in writing of any challenge or question or matter determined by them and execute a certificate of any fact found by them. They shall also certify the result of such vote to the insurer and to the Commissioner. Any report or certificate made by them shall be *prima facie* evidence of facts stated therein. All necessary expenses incurred in connection with such election shall be paid by the insurer. For the purpose of this section, a quorum shall consist of five percent (5%) of the policyholders of such insurer entitled to vote at such election.

"SEC. 272. In carrying out any such plan, the insurer may acquire any shares of its own stock by gift, bequest or purchase. Any shares so acquired shall, unless as a result of such acquisition all of the shares of the insurer shall have been acquired, be acquired in trust for the policyholders of the class or classes for whose benefit the plan provides that the stock of the insurer shall be acquired as hereinafter provided. Such shares shall be assigned and transferred on the books of such insurer and approved

by the Commissioner. Such trustees shall hold such stock in trust until all of the outstanding shares of capital stock of such insurer have been acquired, but for not longer than thirty (30) years with such extensions of not more than five (5) years each as may be granted by the Commissioner. Such extensions may be granted by the Commissioner if the plan so provides and if in his opinion the plan of acquisition of all of such stock can be completed within a reasonable period. Such trustees shall vote such stock at all corporate meetings at which stockholders have the right to vote. When all the outstanding shares of capital stock of such insurer have been acquired, all said shares shall be cancelled, the certificate of amendment of the insurer's articles of incorporation giving effect thereto shall be filed in accordance with the provisions of the Corporation Code, and the insurer shall become a nonstock corporation for the profit of its members and such trust shall thereupon terminate. Thereafter such corporation shall be conducted for the mutual benefit, ratably, of its policyholders of the class or classes for whose benefit the stock was acquired and shall have power to issue non-assessable policies on a reserve basis subject to all provisions of law applicable to incorporated life insurers issuing non-assessable policies on a reserve basis. Policies so issued may be upon the basis of full or partial participation therein as agreed between the insurer and the insured.

"Upon the termination of any such voting trust, either in accordance with its terms or as hereinabove provided, such plan of mutualization shall terminate, unless theretofore completed. Upon such termination, unless the plan of mutualization provides for the disposition of the shares acquired by the insurer under such plan or for the disposition of the proceeds thereof, the shares held by such trustees shall be disposed of in accordance with an order of the court of competent jurisdiction in the judicial district in which is located the principal office of such insurer, made upon a verified petition of the Commissioner.

"SEC. 273. Any such plan of mutualization may provide for the creation of a voting trust under a trust agreement for the holding and voting by three (3) or more trustees of any portion or all of the shares of the insurer not required upon the adoption of such plan. The voting trustees shall be named in accordance with such plan or, if no provision is made therein for the naming of such trustees, then by the insurer. The voting trust agreement and voting trustees shall be subject to the approval of the Commissioner. Any or all of the trustees under such voting trust agreement may be the same person or persons as any or all of the trustees referred to in Section 272. Such voting trust agreement shall provide that in the event of acquisition by the insurer of any of the shares of stock held thereunder in accordance with the provisions of the plan, such shares so acquired together with the voting rights thereof shall be transferred by the trustees named under the provisions of this section to the trustees named under the provisions of Section 272. Any voting trust agreement created pursuant to the provisions of this section may be made irrevocable for not longer than thirty (30) years and thereafter until the termination of the trust provided for in Section 272. The trust created pursuant to the provisions of this section shall terminate in any event upon termination of the trust provided for in Section 272. Upon the termination of the trust created pursuant to the provisions of this section, any shares held in such trust shall revert to the persons entitled thereto by law.

"SEC. 274. Every payment for the acquisition of any shares of the capital stock of such insurer, the purchase price of which is not fixed by such plan, shall be subject to the prior approval of the Commissioner. Neither such plan, nor any such payment, may be approved by the Commissioner unless he finds that the rights and interests of the insurer, its policyholders, and shareholders are protected.

"SEC. 275. The trustees referred to in Section 272 shall file with such insurer and with the Commissioner a verified acceptance of their appointments and verified declarations that they will faithfully discharge their duties as such trustees. All dividends and other sums received by said trustees on the shares held by them, after paying the necessary expenses of executing their trust, shall be immediately repaid to such insurer for the benefit of all who are, or may become, policyholders of such insurance of the class or classes for whose benefit the stock of such insurer was acquired and entitled to participate in the profits thereof and shall be added to and become part of the assets of such insurer.

"SEC. 276. If, at any time within the period provided in the plan for the acquisition of the outstanding shares of stock of the insurer, ninety percent (90%) thereof has already been acquired and transferred to the trustees under the plan, the insurer by a vote of a majority of the directors may determine to make an offer, with the permission of the Commissioner and subject to such requirement as he may specify, to acquire by purchase all of the shares not theretofore acquired under the plan, at a specified price which the insurer considers to be their fair value as of the date of making such offer.

"If the offer to acquire is permitted by the Commissioner, the insurer shall make a written offer by registered mail to each shareholder whose shares have not theretofore been acquired under the plan or otherwise, offering to acquire all his shares at such price if accepted in writing within thirty (30) days after the mailing of such offer. Any shareholder accepting such offer within the time therefor shall, within sixty (60) days after his acceptance, transfer to the insurer the certificates representing such shares and, upon doing so, shall be paid by the insurer the amount of such offer for his shares. Any share so acquired shall be assigned and transferred to the trustees under the plan and held by them as shares acquired pursuant to the plan.

"Each shareholder who does not accept such offer to acquire his shares within the time stated in such offer for acceptance thereof shall within fifteen (15) days after the expiration of such offer apply to the Secretary of Finance for a determination of the fair value of his shares as of the date of making such offer. The Secretary of Finance may himself, after due notice and hearing, determine upon the evidence received the fair value of the shares as of the date of making such offer, or appoint three (3) impartial and disinterested persons to appraise the fair value of such shares with such direction as he shall deem proper and necessary to expedite the proceedings. Upon completion of the appraisal proceedings, the appraisers shall file with the Secretary of Finance their report in writing stating the fair value of such shares as of the date of the making of such offer and setting forth their findings in support of such statement. The appraisers shall furnish each party to the proceedings a copy of their appraisal report, and within ten (10) days after receipt thereof, any such party may signify his objection, if any, to the report or move for the approval thereof. Upon the expiration of the period of ten (10) days referred to above, the report shall be set for hearing, after which the Secretary of Finance shall issue an order adopting, modifying or rejecting the report, in whole or in part, or he may receive further evidence or may recommit it with instructions. Whenever the Secretary of Finance shall determine in any manner, as aforesaid, the fair value of such shares, he may also determine the terms of payment thereof by the insurer. The expenses incidental to the proceedings including charges of the appraisers, if any, shall be paid equally by the insurer and the shareholder.

"The findings of the Secretary of Finance on all questions of fact raised at the hearing of the application for determination of the fair value of such shares shall be conclusive upon all parties to the proceedings. The order of the Secretary of Finance determining the fair value of the shares and the terms of payment thereof shall have the force and effect of a

judgment which shall be appealable on any question of law. Such order shall become final and executory fifteen (15) days after receipt thereof by the parties to the proceedings.

"Upon any such order becoming final and from which no appeal is pending, or when the time to appeal therefrom has expired, each shareholder party to the proceedings shall transfer his shares to the insurer and surrender to the said insurer the certificates representing such shares and the insurer shall make payment therefor as provided in such order. Any shares so acquired by the insurer shall be assigned and transferred to the trustees and held by them as shares acquired pursuant to the plan.

"Any shareholder who does not apply to the Secretary of Finance in the manner and within the time hereinbefore prescribed shall be deemed to have accepted the offer referred to above, effective, however, upon the expiration of the time hereinabove prescribed for making such application, and such shareholder's time for accepting such offer shall, for that purpose only, be deemed to have been extended accordingly.

"Any offer to acquire shares made pursuant to this section shall, except as otherwise provided herein, be irrevocable until all proceedings upon such offer have been completed or all shares have otherwise been earlier acquired by the insurer.

"Any shareholder who has expressly or impliedly accepted the plan or the offer to acquire his shares not theretofore acquired under the plan, and any shareholder who has rejected such plan or such offer and has applied, as aforesaid, to the Secretary of Finance for a determination of the fair value of his shares subsequent to which an agreement has been reached or a final order issued fixing such fair value but who fails to surrender his certificates for cancellation upon payment of the amount to which he is entitled, may be compelled to do so by an order of the Secretary of Finance for

that purpose and such order may provide that upon failure of such shareholder to surrender such certificates for cancellation, such order shall stand in lieu of such surrender and cancellation.

"SEC. 277. Such insurer, after mutualization, shall be a continuation of the original insurer, and such mutualization shall not affect such insurer's certificate of authority nor existing suits, rights or contracts except as provided in said plan for the acquisition of the outstanding shares of the capital stock of such insurer, approved as provided in this chapter. Such insurer, after mutualization, shall exercise all the rights and powers and shall perform all the duties conferred or imposed by law upon insurers writing the classes of insurance written by it, and to protect rights and contracts existing prior to mutualization, subject to the effect of said plan. The board of directors of such insurer, prior to mutualization, may adopt amendments to its bylaws to take effect upon mutualization.

"SEC. 278. (a) An annual meeting of members shall be held at ten o'clock in the morning of the fourth Tuesday of March of each year at the principal office of the insurer, unless a different time or place is provided in the bylaws.

"(b) Special meetings of the members, for any purpose or purposes whatsoever, may be called at any time by the president, or by the board of directors, or by one or more members holding not less than one-fifth (1/5) of the voting power of such insurer, or by such other officers or persons as the bylaws authorize.

"(c) Notice of all meetings of members whether annual or special shall be given in writing to the members entitled to vote by the secretary, or an assistant secretary, or other person charged with that duty, or if there be no such officer, or in case of his neglect or refusal, by any director or member. At the option of the insurer such notice may be imprinted on premium notices or receipts or on both.

"A notice may be given by such insurer to any member either personally, or by mail, or other means of written communication, charges prepaid, addressed to such member at his address appearing on the books of the insurer, or given by him to the insurer for the purpose of notice. If a member gives no address, notice shall be deemed to have been given him if sent by mail or other means of written communication addressed to the place where the principal office of the insurer is situated, or if published at least once in some newspaper of general circulation in the place in which said office is located.

"Notice of any meeting of members shall be sent to each member entitled thereto not less than seven (7) days before such meeting, unless the bylaws provide otherwise.

"Notice of any meeting of members shall specify the place, the day and the hour of the meeting and the general nature of the business to be transacted.

"Notice of an annual meeting to be held at the time and place specified in subparagraph (a) of this section shall be sufficiently given if published at least once in each of four (4) successive weeks in a newspaper of general circulation in the place in which the principal office of such insurer is located, and if so published no other notice of such meeting shall be required.

"(d) The presence in person or by proxy of five percent (5%) of the members entitled to vote at any meeting shall constitute a quorum for the transaction of business, including the amendment of the articles of incorporation and/or the bylaws unless otherwise provided by the bylaws.

"(e) Each such member shall have one (1) vote at any meeting of members regardless of the number of policies or the amount of insurance that such member holds and regardless of whether such policies are policies of life insurance, or of health and accident

insurance, or both. Any member entitled to vote shall have the right to do so either in person or by an agent or agents authorized by a written proxy executed by such person or his duly authorized agent and filed with the secretary of such insurer.

"(f) The directors of the insurer in office at the time the insurer is mutualized as provided in this chapter shall continue in office until the first annual meeting of members. At the first annual meeting of members and at each annual meeting thereafter, directors shall be elected by the members for the term or terms authorized by this chapter.

"(g) The articles of incorporation or the bylaws may provide that the directors may be divided into two (2) or more classes whose terms of office shall expire at different times, but no terms shall continue longer than six (6) years. In the absence of such provisions, each director, except members of the board of directors at the time the insurer is mutualized, shall be elected for a term of one (1) year. All directors shall hold office for a term for which they are elected and until their successors are elected and qualified. A director may, but need not be a member or policyholder of the insurer of which he is acting as director. Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, and each director so elected shall hold office until the next annual meeting.

"(h) All insurers mutualized under the provisions of this chapter shall be subject to all other applicable provisions of this Code. The provisions of the Corporation Code shall apply in a suppletory manner.

"SEC. 279. The provisions of Commonwealth Act No. 83, otherwise known as the Securities Act, as amended, shall not apply to any of the following:

"(a) Shares of the capital stock of such insurer acquired as provided in Section 272 and assigned and transferred to the trustees as is provided in said section, and the assignment and transfer of said shares as so provided;

"(b) Any certificate or other instrument issued to a policyholder of such mutualized insurer conferring or evidencing membership in such mutualized insurer or conferring or evidencing such member's right to participate in the profits or share in the assets of such mutualized insurer by virtue of his membership therein, and the issuance of such certificate or other instrument;

"(c) The plan for the acquisition of the outstanding shares of the capital stock of such insurer authorized by the provisions of this chapter, the submission of said plan to the Commissioner and to the policyholders of such insurer as provided in this chapter, and the approval and carrying out of said plan or any part thereof in accordance with the provisions of this chapter.

"SEC. 280. A domestic mutual life insurance company doing business in the Philippines may convert itself into an incorporated stock life insurance company by demutualization. To that end, it may provide and carry out a plan for the conversion by complying with the requirements of this title.

"The conversion of a domestic mutual life insurance company to an incorporated stock life insurance company shall be carried out pursuant to a conversion plan duly approved by the Commissioner.

"The Commissioner shall promulgate such rules and regulations as he or she may deem necessary to carry out the provisions of this title, after due consultation with representatives of the insurance industry.

"All converted insurers under the provisions of this title shall be subject to all other applicable provisions of this Code. The provisions of the Corporation Code shall apply in a suppletory manner.

"TITLE 18

"WITHDRAWAL OF FOREIGN
INSURANCE COMPANIES

"SEC. 281. A foreign insurance company doing business in the Philippines, upon payment of the fee hereinafter prescribed and surrender to the Commissioner of its certificate of authority, may apply to withdraw from the Philippines. Such application shall be duly executed in writing, accompanied by evidence of due authority for such execution, properly acknowledged.

"SEC. 282. The Commissioner shall publish the application for withdrawal once a week for three (3) consecutive weeks in a newspaper of general circulation in the Philippines. The expenses of such publication shall be paid by the insurance company filing such application.

"SEC. 283. Every foreign insurance company desiring to withdraw from the Philippines shall, prior to such withdrawal, discharge its liabilities to policyholders and creditors in this country. In case of its policies insuring residents of the Philippines, it shall cause the primary liabilities under such policies to be reinsured and assumed by another insurance company authorized to transact business in the Philippines. In the case of such policies as are subject to cancellation by the withdrawing company, it may cancel such policies pursuant to the terms thereof in lieu of such reinsurance and assumption of liabilities.

"SEC. 284. The Commissioner shall cause an examination of the books and records of the withdrawing company, and if, upon such examination, the Commissioner finds that the insurer has no outstanding liabilities to policyholders and creditors in the Philippines, and no policies uncanceled; or its primary liabilities have been reinsured or assumed by another insurance company authorized to transact business in the Philippines, as required in the

preceding section, it shall cancel the withdrawing company's certificate of authority, if unexpired, and shall permit the insurer to withdraw. The cost and expenses of all such examination shall be paid as prescribed in Section 440.

"SEC. 285. Upon the failure of such withdrawing insurance company or its agents in the Philippines to pay the expenses of such publication within thirty (30) days after the presentation of the bill therefor, the Commissioner shall collect such fee from the deposit furnished in accordance with the provisions of Section 197.

"SEC. 286. A foreign life insurance company that withdraws from the Philippines shall be considered a servicing insurance company if its business transactions are confined to accepting periodic premium payments from, or granting policy loans and paying cash surrender values of outstanding policies to, or reviving lapsed policies of, Philippine policyholders, and such other related services.

"SEC. 287. No company shall act as a servicing insurance company until after it shall have obtained a special certificate of authority to act as such from the Commissioner upon application therefor and payment by the company of the fees hereinafter prescribed. Such certificate shall expire on the last day of December of the third year and shall be renewed, while the company continues to service its policyholders, and to comply with all the applicable provisions of law and regulations.

"TITLE 19

"PROFESSIONAL REINSURERS

"SEC. 288. Except as otherwise provided in this Code, no partnership, association or corporation shall transact any business in the Philippines as a professional reinsurer until it shall have obtained a certificate of authority for that purpose from the Commissioner upon application therefor and payment

by such entity of the fees hereinafter prescribed. As used in this Code, the term 'professional reinsurer' shall mean any entity that transacts solely and exclusively reinsurance business in the Philippines.

"The Commissioner may refuse to issue a certificate of authority to any such entity when such refusal will best promote public interest. No such certificate of authority shall be granted to any such entity unless and until the Commissioner is satisfied by such examination and such evidence as may be required that such entity is qualified by the laws of the Philippines to transact business therein as a professional reinsurer.

"Before issuing such certificate of authority, the Commissioner must be satisfied that the name of the applicant is not that of any other known company transacting insurance or reinsurance business in the Philippines, or a name so similar as to be calculated to mislead the public.

"Such certificate of authority shall expire on the last day of December the third year following its issuance unless it is renewed.

"Every such partnership, association, or corporation receiving such certificate of authority shall be subject to the provisions of this Code and other related laws, and to the jurisdiction and supervision of the Commissioner.

"SEC. 289. Any partnership, association, or corporation authorized to transact solely reinsurance business must have a capitalization of at least Three billion pesos (P3,000,000,000.00) paid in cash of which at least fifty percent (50%) is paid-up and the remaining portion thereof is contributed surplus, which in no case shall be less than Four hundred million pesos (P400,000,000.00) or such capitalization as may be determined by the Secretary of Finance, upon the recommendation of the Commissioner: *Provided*, That twenty-five percent (25%) of the paid-up capital must be invested in securities

satisfactory to the Commissioner consisting of bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of government-owned or -controlled corporations and entities, including the Bangko Sentral ng Pilipinas, and deposited with the Commissioner, and the remaining seventy-five percent (75%) in such other securities as may be allowed and permitted by the Commissioner, which securities shall at all times be maintained free from any lien or encumbrance: *Provided, further*, That the aforesaid capital requirement is without prejudice to other requirements to be imposed under any risk-based capital method that may be adopted by the Commissioner: *Provided, finally*, That the provisions of this chapter applicable to insurance companies shall as far as practicable be likewise applicable to professional reinsurers.

"TITLE 20

"HOLDING COMPANIES

"SEC. 290. As used in this title, the following terms shall have the respective meanings hereinafter set forth unless the context shall otherwise require:

"(a) *Person* means an individual, partnership, firm, association, corporation, trust, any similar entity or any combination of the foregoing acting in concert.

"(b) *Control*, including the terms *controlling*, *controlled by* and *under common control with*, means the possession directly or indirectly of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities by a contract other than a commercial contract for goods or non-management services or otherwise. Subject to Section 292, control shall be presumed to exist if any person directly or indirectly owns, controls or holds with the power to vote forty percent (40%) or more of the voting securities of any other person: *Provided*, That no person shall be deemed to control another person solely by reason of his being an officer or director of such other person.

"(c) *Holding company* means any person who directly or indirectly controls any authorized insurer.

"(d) *Controlled insurer* means an authorized insurer controlled directly or indirectly by a holding company.

"(e) *Controlled person* means any person, other than a controlled insurer, who is controlled directly or indirectly by a holding company.

"(f) *Holding company system* means a holding company together with its controlled insurers and controlled persons.

"SEC. 291. Notwithstanding paragraph (b) of Section 290, the Commissioner may determine after notice and opportunity to be heard, that a person exercises directly or indirectly either alone or pursuant to an agreement with one or more other persons such a controlling influence over the management or policies of an authorized insurer as to make it necessary or appropriate in the public interest or for the protection of policyholders or stockholders of the insurer that the person be deemed to control the insurer.

"SEC. 292. The Commissioner may determine upon application that any person, either alone or pursuant to agreement with one or more other persons, does not or will not upon the taking of some proposed action control another person. The filing of an application hereunder in good faith by any person shall relieve the applicant from any obligation or liability imposed by this title with respect to the subject of the application, except as contained in Section 302, until the Commissioner has acted upon the application. Within thirty (30) days or such further period as he may prescribe, the Commissioner may prospectively revoke or modify his determination, after notice and opportunity to be heard, whenever in his judgment, revocation or modification is consistent with this title.

"SEC. 293. Notwithstanding any other provisions of this title, the following shall not be deemed holding companies:

"(a) Authorized insurers or reinsurers or their subsidiaries; and

"(b) The Government of the Philippines, or any political subdivision, agency or instrumentality thereof, or any corporation which is wholly owned directly or indirectly by one or more of the foregoing.

"The Commissioner may conditionally or unconditionally exempt any specified person or class of persons from any of the obligations or liabilities imposed under this title, if and to the extent he finds the exemption necessary or appropriate in the public interest or not adverse to the interests of policyholders or stockholders and consistent with the purposes of this title.

"SEC. 294. (a) Every person who on the date this Code takes effect is a controlled insurer and every person who thereafter becomes a controlled insurer, shall, within sixty (60) days thereafter, or within thirty (30) days after becoming a controlled insurer, whichever is later, register with the Commissioner. Such registration shall be amended within thirty (30) days following any change in the identity of its holding company. The Commissioner may grant one or more reasonable extensions of the time to register.

"(b) Every registrant shall furnish the Commissioner with the following information concerning its holding company:

"(1) A copy of its charter or articles of incorporation and its bylaws;

"(2) The identities of its principal shareholders, officers, directors and controlled persons; and

"(3) Information as to its capital structure and financial condition, and a description of its principal business activities.

"SEC. 295. Every controlled insurer shall file with the Commissioner such reports or material as he may direct for the purpose of disclosing information concerning the operations of persons within the holding company system which may materially affect the operations, management or financial condition of the insurer.

"SEC. 296. Every holding company and every controlled person within a holding company system shall be subject to examination by order of the Commissioner if he has cause to believe that the operations of such persons may materially affect the operations, management or financial condition of any controlled insurer with the system and that he is unable to obtain relevant information from such controlled insurer. The grounds relied upon by the Commissioner for such examination shall be stated in his order, which order shall be subject to judicial review only at the instance of the person sought to be examined. Such examination shall be confined to matters specified in the order. The cost of such examination shall be assessed against the person examined and no portion thereof shall thereafter be reimbursed to it directly or indirectly by the controlled insurer.

"SEC. 297. The Commissioner shall keep the contents of each report made pursuant to this title and any information obtained by him in connection therewith confidential and shall not make the same public without the prior written consent of the controlled insurer to which it pertains unless the Commissioner after notice and an opportunity to be heard shall determine that the interests of policyholders, stockholders or the public will be served by the publication thereof. In any action or proceeding by the Commissioner against the person examined or any other person within the same holding company system a report of such examination published by him shall be admissible as evidence of the facts stated therein.

"SEC. 298. Transactions within a holding company system to which a controlled insurer is a party shall be subject to the following:

"(a) The terms shall be fair and equitable;

"(b) Charges or fees for services performed shall be reasonable;

"(c) Expenses incurred and payments received shall be allocated to the insurer on an equitable basis in conformity with customary insurance accounting practices consistently applied.

"The books, accounts and records of each party to all such transactions shall be maintained as to clearly and accurately disclose the nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties.

"SEC. 299. The prior written approval of the Commissioner shall be required for the following transactions between a controlled insurer and any person in its holding company system: sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent (5%) or more of the insurer's admitted assets as of the thirty-first day of December next preceding.

"SEC. 300. The following transactions between a controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the Commissioner in writing of its intention to enter into any such transaction at least thirty (30) days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:

"(a) Sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than one-half of one percent ($\frac{1}{2}\%$) but less than five percent (5%) of the insurer's admitted assets as of the thirty-first day of December next preceding;

"(b) Reinsurance treaties or agreements;

"(c) Rendering of services on a regular or systematic basis; or

"(d) Any material transaction, specified by regulation, which the Commissioner determines may adversely affect the interest of the insurer's policyholders or stockholders or of the public.

"Nothing herein contained shall be deemed to authorize or permit any transaction which, in the case of a non-controlled insurer, would be otherwise contrary to law.

"SEC. 301. The Commissioner, in reviewing transactions pursuant to Sections 299 and 300, shall consider whether the transactions comply with the standard set forth in Section 298 and whether they may adversely affect the interests of policyholders. This section shall not apply to transactions subject to other sections of this Code which impose notice or approval requirements greater than those prescribed by this title.

"SEC. 302. (a) No person, other than an authorized insurer, shall acquire control of any domestic insurer, whether by purchase of its securities or otherwise, except:

"(1) After twenty (20) days written notice to its insurer or such shorter period as the Commissioner may permit, of its intention to acquire control; and

"(2) With the prior written approval of the Commissioner.

"(b) The Commissioner shall disapprove the acquisition of control of a domestic insurer if he determines, after notice and an opportunity to be heard, that such action is reasonably necessary to protect the interest of the people of this country. The following shall be the only factors to be considered by him in reaching the foregoing determination:

"(1) The financial condition of the acquiring person and the insurer;

"(2) The trustworthiness of the acquiring person or any of its officers or directors;

"(3) A plan for the proper and effective conduct of the insurer's operations;

"(4) The source of the funds or assets for the acquisition;

"(5) The fairness of any exchange of stock, assets, cash or other consideration for the stock or assets to be received;

"(6) Whether the effect of the acquisition may be substantially to lessen competition in any line of commerce in insurance or to tend to create a monopoly therein; and

"(7) Whether the acquisition is likely to be hazardous or prejudicial to the insurer's policyholders or stockholders.

"(c) The following conditions affecting any controlled insurer, regardless of when such control has been acquired, are violations of this title:

"(1) The controlling person or any of its officers or directors have demonstrated untrustworthiness; and

"(2) The effect of retention of control may be substantially to lessen competition in any line of commerce in insurance in this country or to tend to create a monopoly therein. If, after notice and an opportunity to be heard, the Commissioner determines that any of the foregoing violations exists, he shall reduce his findings to writing and shall issue an order based thereon and cause the same to be served upon the insurer and upon all persons affected thereby directing any person found to be in violation thereof to take appropriate action to cure such violation. Upon the failure of any such person to comply with such order, Section 306 shall become applicable.

"(d) The Commissioner may require the submission of such information as he deems necessary to determine whether any acquisition or retention of

control complies with this title and may require, as a condition of approval of such acquisition or retention of control, that all or any portion of such information be disclosed to the insurer's stockholders.

"(e) Unless subject to registration under Section 294 or unless acquisition of its control is subject to paragraphs (a) and (b) hereof, every authorized insurer shall notify the Commissioner in writing of the identity of any person whom the insurer then knows or has reason to believe controls or has taken any action, other than preliminary negotiations or discussion, to acquire control of the insurer.

"SEC. 303. (a) Notwithstanding the control of an authorized insurer by any person, the officers and directors of the insurer shall not thereby be relieved of any obligation or liability to which they would otherwise be subject by law, and the insurer shall be managed so as to assure its separate operating identity consistent with this title.

"(b) Nothing herein shall preclude an authorized insurer from having or sharing a common management or cooperative or joint use of personnel, property or services with one or more other persons under arrangements meeting the standards of Section 298.

"SEC. 304. To the extent that any information or material is set forth in forms or other matter on file with any government agency or in a registration form filed with the Commissioner by another person within the same holding company system, the controlled insurer may comply with the registration or reporting requirements of this title by referring in its registration form or report to such other filed matter and attaching a copy thereof certified by the insurer as a true and complete copy, to such registration form or report or, if such other filed matter is on file with the Commissioner, incorporating such matter by reference.

"SEC. 305. No holding company or controlled person shall directly or indirectly or through another person do or cause to be done for or in behalf of the controlled insurer any act intended to affect the insurance operations of the insurer which, if done by the insurer, would violate any provision of this Code.

"SEC. 306. In addition to any other penalty provided by law, the Commissioner may, upon the willful failure of any person within a holding company system to comply with this title or any regulation or order promulgated hereunder:

"(a) Proceed under Title 14 or Title 15, Chapter III of this Code with respect to insurer within the holding company system; or

"(b) Revoke or refuse to renew the authority to do business in this country of an insurer within the holding company system or refuse to issue such authority to any other insurer in the system; or

"(c) Direct that, in addition to any other penalty provided by law, such person forfeit to the people of this country a sum not less than Five thousand pesos (P5,000.00) for a first violation and Twenty-five thousand pesos (P25,000.00) for any subsequent violation. An additional sum not less than Twenty-five thousand pesos (P25,000.00) shall be imposed for each month during which any such violation shall continue.

"CHAPTER IV

"SALES AGENCIES AND TECHNICAL SERVICES

"TITLE 1

"INSURANCE AGENTS AND INSURANCE BROKERS

"SEC. 307. No insurance company doing business in the Philippines, nor any agent thereof, shall pay any commission or other compensation to any person for services in obtaining insurance, unless such person shall have first procured from the Commissioner a license to act as an insurance agent of such company or as an insurance broker as hereinafter provided.

"No person shall act as an insurance agent or as an insurance broker in the solicitation or procurement of applications for insurance, or receive for services in obtaining insurance, any commission or other compensation from any insurance company doing business in the Philippines, or any agent thereof, without first procuring a license so to act from the Commissioner, which must be renewed every three (3) years thereafter. Such license shall be issued by the Commissioner only upon the written application of the person desiring it, such application if for a license to act as insurance agent, being approved or endorsed by the company such person desires to represent, and shall be upon a form prescribed by the Commissioner giving such information as he may require, and upon payment of the corresponding fee hereinafter prescribed. The Commissioner shall satisfy himself as to the competence and trustworthiness of the applicant and shall have the right to refuse to issue or renew and to suspend or revoke any such license in his discretion. The license shall expire after the thirty-first day of December of the third year following the date of issuance unless it is renewed.

"Licenses may be renewed in the case of the company represented by such agents, and in the case of insurance brokers, upon the application of the said brokers, themselves.

"SEC. 308. The provisions of Sections 307 and 309 shall apply to an employee who shall be engaged to sell insurance products by an insurance company.

"SEC. 309. Any person who for compensation solicits or obtains insurance on behalf of any insurance company or transmits for a person other than himself an application for a policy or contract of insurance to or from such company or offers or assumes to act in the negotiating of such insurance shall be an insurance agent within the intent of this section and shall thereby become liable to all the duties, requirements, liabilities and penalties to which an insurance agent is subject.

"An insurance agent is an independent contractor and not an employee of the company represented. 'Insurance agent' includes an agency leader, agency manager, or their equivalent.

"Since the insurance industry is imbued with public interest, the insurance companies upon approval of the Commissioner may exercise wide latitude in supervising the activities of their insurance agents to ensure the protection of the insuring public.

"SEC. 310. Any person who for any compensation, commission or other thing of value acts or aids in any manner in soliciting, negotiating or procuring the making of any insurance contract or in placing risk or taking out insurance, on behalf of an insured other than himself, shall be an insurance broker within the intent of this Code, and shall thereby become liable to all the duties, requirements, liabilities and penalties to which an insurance broker is subject.

"SEC. 311. Every applicant for an insurance broker's license shall file with the application and shall thereafter maintain in force while so licensed, a bond in favor of the people of the Republic of the Philippines executed by a company authorized to become surety upon official recognizances, stipulations, bonds and undertakings. The bond shall be in such amount as may be fixed by the Commissioner, but in no case less than Five hundred thousand pesos (P500,000.00), and shall be conditioned upon full accounting and due payment to the person entitled thereto of funds coming into the broker's possession through insurance transactions under license. The bond shall remain in force until released by the Commissioner, or until cancelled by the surety. Without prejudice to any liability previously incurred thereunder, the surety may cancel the bond on thirty (30) days advance written notice to both the broker and the Commissioner.

"Upon approval of the application, the applicant must also file two (2) errors and omissions (professional liability or professional indemnity)

policies issued separately by two (2) insurance companies authorized to do business in the Philippines, satisfactory to the Commissioner to indemnify the applicant against any claim or claims for breach of duty as insurance broker which may be made against him by reason of any negligent act, error or omission, whenever or wherever committed or alleged to have been committed, on the part of the applicant or any person who has been, is now, or may hereafter during the subsistence of the policies be employed by the said applicant in his capacity as insurance broker: *Provided*, That the filing of any claim or claims under one of such policies shall preclude the filing of the said claim or claims under the other policy. The said policies shall be in such amounts as may be prescribed by the Commissioner, depending upon the size or amount of the broking business of the applicant, but in no case shall the amount of each of such policies be less than Five hundred thousand pesos (P500,000.00).

"SEC. 312. The Commissioner shall, in order to determine the competence of every applicant to have the kind of license applied for, require such applicant to submit to a written examination and to pass the same to the satisfaction of the Commissioner. The Commissioner may delegate or authorize the administration of the examination to an independent organization, subject to such conditions that the Commissioner may provide.

"SEC. 313. An applicant for the written examination mentioned in the preceding section must be of good moral character and must not have been convicted of any crime involving moral turpitude. He must satisfactorily show to the Commissioner that he has been trained in the kind of insurance contemplated in the license applied for. Such examination may be waived if it is shown to the satisfaction of the Commissioner that the applicant has undergone extensive education and/or training in insurance.

"SEC. 314. An application for the issuance or renewal of a license to act as an insurance agent or insurance broker may be refused, or such license, if already issued or renewed, shall be suspended or revoked if the Commissioner finds that the applicant for, or holder of, such license:

"(a) Has willfully violated any provision of this Code; or

"(b) Has intentionally made a material misstatement in the application to qualify for such license; or

"(c) Has obtained or attempted to obtain a license by fraud or misrepresentation; or

"(d) Has been guilty of fraudulent or dishonest practices; or

"(e) Has misappropriated or converted to his own use or illegally withheld moneys required to be held in a fiduciary capacity; or

"(f) Has not demonstrated trustworthiness and competence to transact business as an insurance agent or insurance broker in such manner as to safeguard the public; or

"(g) Has materially misrepresented the terms and conditions of policies or contracts of insurance which he seeks to sell or has sold; or

"(h) Has failed to pass the written examination prescribed, if not otherwise exempt from taking the same.

"In addition to the foregoing causes, no license to act as insurance agent or insurance broker shall be renewed if the holder thereof has not been actively engaged as such agent or broker in accordance with such rules as the Commissioner may prescribe.

"SEC. 315. The premium, or any portion thereof, which an insurance agent or insurance broker collects from an insured and which is to be paid to an insurance company because of the assumption of

liability through the issuance of policies or contracts of insurance, shall be held by the agent or broker in a fiduciary capacity and shall not be misappropriated or converted to his own use or illegally withheld by the agent or broker.

"Any insurance company which delivers to an insurance agent or insurance broker a policy or contract of insurance shall be deemed to have authorized such agent or broker to receive on its behalf payment of any premium which is due on such policy or contract of insurance at the time of its issuance or delivery or which becomes due thereon.

"In order to ensure faithful performance by the insurance agent or insurance broker of these fiduciary responsibilities, the Insurance Commissioner shall prescribe the minimum terms and conditions on such matters in the standard agency or brokers agreement between the agents and/or the broker with the insurance companies.

"SEC. 316. Any provision of existing laws to the contrary notwithstanding, no person shall, within the Philippines, sell or offer for sale a variable contract or do or perform any act or thing in the sale, negotiation, making or consummating of any variable contract other than for himself unless such person shall have a valid and current license from the Commissioner authorizing such person to act as a variable contract agent. No such license shall be issued unless and until the Commissioner is satisfied, after examination that such person is by training, knowledge, ability and character qualified to act as such agent. Any such license may be withdrawn and cancelled by the Commissioner after notice and hearing, if he shall find that the holder thereof does not then have the qualifications required for the issuance of such license.

"SEC. 317. It shall be unlawful for any person, company or corporation in the Philippines to act as general agent of any insurance company unless he is empowered by a written power of attorney duly

executed by such insurance company, and registered with the Commissioner to receive notices, summons and legal processes for and in behalf of the insurance company concerned in connection with actions or other legal proceedings against said insurance company. It shall be the duty of said general agent to notify the Commissioner of his post office address in the Philippines, or any change thereof. Notices, summons, or processes of any kind sent by registered mail to the last registered address of such general agent of the company concerned or to the Commissioner shall be sufficient service and deemed as if served on the insurance company itself.

"SEC. 318. Except as otherwise provided by law or treaty, it shall be unlawful for any person, partnership, association or corporation in the Philippines, for himself or itself, or for some other person, partnership, association or corporation, either to procure, receive or forward applications of insurance in, or to issue or to deliver or accept policies or contracts of insurance of or for, any insurance company or companies not authorized to transact business in the Philippines, covering risks, life or non-life, situated in the Philippines; and any such person, partnership, association or corporation violating the provisions of this section shall be deemed guilty of a penal offense, and upon conviction thereof, shall for each such offense be punished by a fine of Two hundred fifty thousand pesos (P250,000.00), or imprisonment of six (6) months, or both, at the discretion of the court: *Provided*, That the provisions of this section shall not apply to reinsurance.

"TITLE 2

"REINSURANCE BROKERS

"SEC. 319. Except as provided in the next succeeding title, no person shall act as reinsurance broker in the Philippines unless he is authorized as such by the Commissioner.

"A reinsurance broker is one who, for compensation, not being a duly authorized agent, employee or officer of an insurer in which any reinsurance is effected, acts or aids in any manner in negotiating contracts of reinsurance, or placing risks of effecting reinsurance, for any insurance company authorized to do business in the Philippines.

"SEC. 320. Upon application and payment of the corresponding fee hereinafter prescribed, and the filing of two (2) errors and omissions (professional liability or professional indemnity) policies hereinafter described, a person may, if found qualified, be issued a license to act as reinsurance broker by the Commissioner. No such license shall be valid after December 31 of the third year following its issuance unless it is renewed.

"The errors and omissions (professional liability or professional indemnity) policies mentioned above shall indemnify the applicant against any claim or claims for breach of duty as reinsurance broker which may be made against him by reason of any negligent act, error or omission, whenever or wherever committed or alleged to have been committed, on the part of the applicant or any person who has been, is now, or may hereafter during the subsistence of the policies be employed by the said applicant in his capacity as reinsurance broker: *Provided*, That the filing of any claim or claims under one of such policies shall preclude the filing of the said claim or claims under the other policy. The said policies shall be issued separately by two (2) insurance companies authorized to do business in the Philippines and shall be in such amounts as may be prescribed by the Insurance Commissioner, depending upon the size or amount of the broking business of the applicant, but in no case shall the amount of each of such policies be less than Five hundred thousand pesos (P500,000.00).

"SEC. 321. The Commissioner may recall, suspend or revoke the license granted to a reinsurance broker for violation of any existing law, rule and regulation, or any provision of this Code after due notice and hearing.

"TITLE 3

"RESIDENT AGENTS

"SEC. 322. No person shall act as resident agent, as hereinafter defined, unless he is registered as such with the Commissioner.

"SEC. 323. The term *resident agent*, as used in this title, is one duly appointed by a foreign insurer or broker not authorized to do business in the Philippines to receive in its behalf notices, summons and legal processes in connection with actions or other legal proceedings against such foreign insurer or broker.

"SEC. 324. The application for a certificate of registration as resident agent filed with the Commissioner must be accompanied with a copy of the power of attorney, duly notarized and authenticated by the Philippine Consul in the place where such foreign insurer or broker is domiciled, empowering the applicant to act as resident agent and to receive notices, summons and legal processes for and in behalf of such foreign insurer or broker in connection with any action or legal proceeding against such foreign insurer or broker.

"SEC. 325. It shall be the duty of such resident agent to notify immediately the Commissioner of any change of his office address.

"SEC. 326. A certificate of registration issued to a resident agent shall expire on the thirty-first day of December of the third year following its issuance unless it is renewed.

"The Commissioner may, after due notice and hearing, recall or cancel the certificate of registration issued to a resident agent for violation of any existing law, rule or regulation, or any provision of this Code.

"TITLE 4

"NON-LIFE COMPANY UNDERWRITER

"SEC. 327. No person shall act, and no company shall employ any person, as non-life company underwriter, whose duty and responsibility it shall be to select, evaluate and accept risks for, and to determine the terms and conditions, including those pertaining to amounts of retentions, under which such risks are to be accepted by the company, unless such underwriter is registered as such with the Commissioner.

"SEC. 328. Every non-life insurance company doing business in the Philippines must maintain at all times a register of risks accepted and a claims register for each line of risks engaged in by such non-life insurance company with such entries therein as are now or as may hereafter be required by the Commissioner, and it shall be the responsibility of the underwriter on the particular line of risk involved to see to it that the said registers are well maintained and kept, and that all entries therein are properly and correctly recorded. Such registers shall be open to inspection and examination of duly authorized representatives of the Commissioner at all times during business hours.

"SEC. 329. No person shall be registered with the Commissioner, unless such person shall be at least twenty-one (21) years of age on the date of such registration; a resident of the Philippines; of good moral character and with no conviction of any crime involving moral turpitude; has had at the time such registration is made at least two (2) years of underwriting work in the particular line of risk involved; and has passed such qualifying written examination that the Commissioner shall conduct at such time and in such place as he may decide to hold for applicants desiring to act as underwriters.

"Such examination shall not be required of any person who has served as non-life company underwriter for a period of at least five (5) years, if

the Commissioner is satisfied of the applicant's competence as shown by the results of his underwriting work in the non-life insurance company or companies that employed him in that capacity. The minimum underwriting experience herein required may be reduced or waived if it is shown to the satisfaction of the Commissioner that the non-life company underwriter has undergone extensive education and/or training in insurance.

"SEC. 330. Any applicant who misrepresents or omits any material fact in his application for registration as a non-life company underwriter, or commits any dishonest act in taking or in connection with the qualifying written examination for underwriters, shall be barred from being registered as such non-life company underwriter and, if already registered, his registration shall be cancelled and the certificate of registration issued in his favor shall be recalled immediately by the Commissioner.

"In the event that the certificate of authority of a non-life insurance company to transact business is suspended or revoked due to business failure arising largely from the imprudent and injudicious acceptance of risks by the underwriter concerned, the registration of such underwriter shall likewise be cancelled and his certificate of registration shall be recalled by the Commissioner, and no similar certificate shall thereafter be issued in his favor.

"SEC. 331. No certificate of registration issued to an underwriter shall be valid after December 31 of the third year following its issuance unless it is renewed.

"The Commissioner may, after due notice and hearing, also suspend or cancel such certificate for violation of existing laws, rules and regulations or of any provisions of this Code.

"TITLE 5

"ADJUSTERS

"SEC. 332. No person, partnership, association, or corporation shall act as an adjuster, as hereinafter defined, unless authorized so to act by virtue of a license issued or renewed by the Commissioner pursuant to the provisions of this Code: *Provided*, That in the case of a natural person, he must be a Filipino citizen and in the case of a partnership, association or corporation, at least sixty percent (60%) of its capital must be owned by citizens of the Philippines.

"SEC. 333. An adjuster may be an independent adjuster or a public adjuster.

"The term *independent adjuster* means any person, partnership, association or corporation which, for money, commission or any other thing of value, acts for or on behalf of an insurer in the adjusting of claims arising under insurance contracts or policies issued by such insurer.

"The term *public adjuster* means any person, partnership, association or corporation which, for money, commission or any other thing of value, acts on behalf of an insured in negotiating for, or effecting, the settlement of a claim or claims of the said insured arising under insurance contracts or policies, or which advertises for or solicits employment as an adjuster of such claims.

"SEC. 334. For every line of insurance claim adjustment, adjusters shall be licensed either as independent adjusters or as public adjusters. No adjuster shall act on behalf of an insurer unless said adjuster is licensed as an independent adjuster; and no adjuster shall act on behalf of an insured unless said adjuster is licensed as a public adjuster: *Provided, however*, That when a firm or person has been licensed as a public adjuster, he shall not be granted another license as independent adjuster and *vice versa*.

"No license, however, shall be required of any company adjuster who is a salaried employee of an insurance company for the adjustment of claims filed under policies issued by such insurance company.

"SEC. 335. Such license or any renewal thereof may be issued by the Commissioner upon written application filed by the person interested on the form or forms prescribed by the Commissioner, which shall contain such information as he may require, and upon payment of the corresponding fee hereinafter prescribed.

"SEC. 336. The Commissioner shall conduct, at such times, and in such places as he may decide to hold, written examinations to determine the competence and ability of applicants desiring to act as adjuster of insurance claims.

"SEC. 337. No adjuster's license issued hereunder shall be valid after December 31 of the third year following the issuance of such license unless it is renewed.

"SEC. 338. Nothing contained in this title shall apply to any duly licensed attorney-at-law who acts or aids in adjusting insurance claims as an incident to the practice of his profession and who does not advertise himself as an adjuster.

"SEC. 339. The Commissioner may suspend or revoke any adjuster's license if, after giving notice and hearing to the adjuster concerned, the Commissioner finds that the said adjuster:

"(a) Has violated any provision of this Code and of the circulars, rulings and instructions of the Commissioner or has violated any law in the course of his dealings as an adjuster; or

"(b) Has made a material misstatement in the application for such license; or

"(c) Has been guilty of fraudulent or dishonest practices; or

"(d) Has demonstrated his incompetence or untrustworthiness to act as adjuster; or

"(e) Has made patently unjust valuation of loss; or

"(f) Has failed to make a report of the adjustment he proposed within sixty (60) days from the date of the filing of the claim by the insured with the insurer, unless prevented so to do by reasons beyond his control; or

"(g) Has refused to allow an examination into his affairs or method of doing business as hereinafter provided.

"SEC. 340. Every adjuster shall submit to the Commissioner a quarterly report of all losses which are the subject of adjustment effected by him during each month in the form prescribed by the Commissioner. The report shall be filed within one (1) month after the end of each quarter.

"SEC. 341. Every adjuster shall keep his or its books, records, reports, accounts, and vouchers in such manner that the Commissioner or his duly authorized representatives may readily verify the quarterly reports of the said adjuster and ascertain whether the said adjuster has complied with the provisions of law or regulations obligatory upon him or whether the method of doing business of the said adjuster has been fair, just and honest.

"SEC. 342. The Commissioner shall, at least once a year and whenever he considers the public interest so demands, cause an examination to be made into the affairs and method of doing business of every adjuster.

"SEC. 343. Any violation of any provision of this title shall be punished by a fine of not less than Ten thousand pesos (P10,000.00), or by imprisonment at the discretion of the court: *Provided, That*, in case of a partnership, association or corporation, the said

penalty shall be imposed upon the partner, president, manager, managing director, director or person in charge of its business or responsible for the violation.

"TITLE 6

"ACTUARIES

"SEC. 344. No life insurance company shall be licensed to do business in the Philippines nor shall any life insurance company doing business in the Philippines be allowed to continue doing such business unless they shall engage the services of an actuary duly accredited with the Commissioner who shall, during his tenure of office, be directly responsible for the direction and supervision of all actuarial work connected with or that may be involved in the business of the insurance company. The Commissioner may also require non-life insurance companies to engage the services of an accredited actuary, in accordance with the rules and regulations that the Commissioner will formulate.

"SEC. 345. Any person may be officially accredited by the Commissioner to act as an actuary in any life insurance company or in any mutual benefit association authorized to do business in the Philippines upon application therefor and the payment of the corresponding fee hereinafter prescribed: *Provided, That*:

"(a) He is a fellow of good standing of the Actuarial Society of the Philippines at the time of his appointment and remains in such good standing during the tenure of his engagement; or

"(b) In the case of one who is not a fellow of the Actuarial Society of the Philippines, he meets all the requirements of the said Society for accreditation as a fellow of the Society, and has been given permission by the pertinent government authorities in the Philippines to render services in the Philippines, in the event that he is not a citizen of the Philippines.

"The registration of the actuary shall be suspended or revoked by the Commissioner on the following grounds:

"(1) Failure to adequately perform required functions and duties under this Code;

"(2) Failure to disclose conflict of interest;

"(3) Failure to comply with the Code of Conduct of the Actuarial Society of the Philippines; or

"(4) Such other grounds that may be determined by the Commissioner.

"No actuary engaged by a life insurance company shall be at the same time a stockholder or a director of the board, chief executive officer or chief financial officer of the company or hold any position that the Commissioner may determine to have an inherent conflict of interest to the position of an actuary.

"No certificate of registration issued under this title shall be valid after December 31 of the third year following its issuance unless it is renewed.

"SEC. 346. The following documents, which are from time to time submitted to the Commissioner by a life insurance company authorized to do business in the Philippines, shall be duly certified by an accredited actuary employed by such company:

"(a) Policy reserves, claims or loss reserves and net due and deferred premiums.

"(b) Statements of bases and net premiums, loading for gross premiums, and on non-forfeiture values and reserves, when applying for approval of gross premiums, reserves and non-forfeiture values.

"(c) Policies of insurance under any plan submitted to the Commissioner as required by law.

"(d) Annual statements and valuation reports submitted to the Commissioner as required by law.

"(e) Financial projection showing the probable income and outgo and reserve requirements, enumerating the actuarial assumptions and bases of projections.

"(f) Valuation of annuity funds or retirement plans.

"The Commissioner may also require non-life insurance companies to submit, from time to time, similar documents which shall be duly certified by an accredited actuary employed by such company.

"Any life insurance company authorized to do business in the Philippines may employ any person who is not officially accredited under either of the qualifications for any kind of actuarial work: *Provided*, That he shall not, at any time, have the authority to certify to the correctness of the foregoing documents.

"SEC. 347. No accredited actuary shall serve more than one client or employer at the same time. However, one already in the employ of an insurance company may be allowed by the Commissioner to serve a mutual benefit association or any other insurance company, provided the following conditions are first complied with:

"(a) That the request to engage his services by the other employer is in writing;

"(b) That his present employer acquiesced to it in writing; and

"(c) That he furnishes the Commissioner with copies of said request and acquiescence.

"No external auditor shall be engaged by supervised persons or entities unless it has been issued an accreditation certificate by the Commissioner. The accreditation certificate shall be valid until December 31 of the third year from issuance unless it is revoked or suspended. The Commissioner shall issue rules and regulations to govern the accreditation of the external auditor and the revocation or suspension of the accreditation.

"TITLE 7

"RATING ORGANIZATION AND RATE MAKING

"SEC. 348. Every organization which now exists or which may hereafter be formed for the purpose of making rates to be used by more than one insurance company authorized to do business in the Philippines shall be known as a rating organization. The term rate as used in this title shall generally mean the ratio of the premium to the amount insured and shall include, as the context may require, either the consideration to be paid or charged for insurance contracts, including surety bonds, or the elements and factors forming the basis for the determination or application of the same, or both.

"SEC. 349. Every rating organization which now exists or which may hereafter be formed shall be subject to the provisions of this title.

"SEC. 350. No rating organization hereafter formed shall commence rate-making operations until it shall have obtained a license from the Commissioner. Before obtaining such license, such rating organization shall file with the Commissioner a notice of its intention to commence rate-making operations, a copy of its constitution, articles of agreement or association, or of incorporation, and its bylaws, a list of insurance companies that have agreed to become members or subscribers, and such other information concerning such rating organization and its operations as may be required by the Commissioner. If the Commissioner finds that the organization has complied with the provisions of law and that it has a sufficient number of members or subscribers and is otherwise qualified to function as a rating organization, the Commissioner may issue a license to such rating organization authorizing it to make rates for the kinds of insurance or subdivisions thereof as may be specified in such license. No license issued to a rating organization shall be valid after December 31 of the third year following its issuance unless it is renewed. No rating

organization which now exists and is not licensed pursuant to this section shall continue rate-making operations until it shall have obtained from the Commissioner a license which he may issue if satisfied that such organization is complying with the provisions of this title. Every rating organization shall notify the Commissioner promptly of every change in:

"(a) Its constitution, its articles of agreement or association or its certificate of incorporation, and its bylaws, rules and regulations governing the conduct of its business; and

"(b) Its list of members and subscribers.

"A *member* means an insurer who participates in or is entitled to participate in the management of a rating organization.

"A *subscriber* means an insurer which is furnished at its request with rates and rating manuals by a rating organization of which it is not a member.

"SEC. 351. Each rating organization shall furnish its rating service without discrimination to all of its members and subscribers, and shall, subject to reasonable rules and regulations, permit any insurance company doing business in the Philippines, not admitted to membership, to become a subscriber to its rating services for any kind of insurance or subdivisions thereof. Notice of proposed changes in such rules and regulations shall be given to subscribers. The reasonableness of any rule or regulation in its application to subscribers, or the refusal of any rating organization to admit an insurance company as a subscriber, shall, at the request of any subscriber or any such insurance company, be reviewed by the Commissioner at a hearing held upon at least ten (10) days' written notice to such rating organization and to such subscriber or insurance company. The Commissioner may, after such hearing, issue an appropriate order.

"SEC. 352. No rating organization or any other association shall refuse to do business with, or prohibit or prevent the payment of commissions to, any person licensed as an insurance broker pursuant to the provisions of Title 1 of this chapter.

"SEC. 353. Rating organizations shall be subject to examination by the Commissioner, as often as he may deem such examination expedient, pursuant to the provisions of this Code applicable to the examination of insurance companies. He shall cause such an examination of each rating organization to be made at least once in every five (5) years.

"SEC. 354. The Commissioner may suspend or revoke the license of any rating organization which fails to comply with his order within the time limited by such order, or any extension thereof which he may grant. The Commissioner may determine when a suspension of license shall become effective and it shall remain in effect for the period fixed by him, unless he modifies or rescinds such suspension.

"SEC. 355. Any rating organization may subscribe for or purchase actuarial, technical or other services, and such services shall be available to all members and subscribers without discrimination.

"SEC. 356. Any rating organization may provide for the examination of policies, daily reports, binders, renewal certificates, endorsements or other instruments of insurance, or the cancellation thereof, and may make reasonable rules governing their submission. Such rules shall contain a provision that in the event an insurance company does not within sixty (60) days furnish satisfactory evidence to the rating organization of the correction of any error or omission previously called to its attention by the rating organization, it shall be the duty of the rating organization to notify the Commissioner thereof. All information so submitted for examination shall be confidential.

"SEC. 357. Cooperation among rating organizations or among rating organizations and insurers in rate making or in other matters within the scope of this title is hereby authorized, provided the filings resulting from such cooperation are subject to all provisions of this title which are applicable to filings generally. The Commissioner may review such cooperative activities and practices and if he finds that any such activity or practice is unfair or unreasonable or otherwise inconsistent with the provisions of this title, he may issue a written order specifying in what respects such activity or practice is unfair or unreasonable or otherwise inconsistent with the provisions of this title, and requiring the discontinuance of such activity or practice.

"SEC. 358. Every rating organization and every insurance company which makes and files its own rates, shall make rates for all risks rated by such organization or insurance company in accordance with the following provisions:

"(a) Basic classification, manual, minimum, class, or schedule rates or rating plans, shall be made and adopted for all such risks. Any departure from such rates shall be in accordance with schedules, rating plans and rules filed with the Commissioner;

"(b) Rates shall be reasonable and adequate for the class of risks to which they apply;

"(c) No rate shall discriminate unfairly between risks involving essentially the same hazards and expense elements or between risks in the application of like charges and credits;

"(d) Consideration shall be given to the past and prospective loss experience, including the conflagration and catastrophe hazards, if any, to all factors reasonably attributable to the class of risks, to a reasonable profit, to commissions paid during the most recent annual period and to past and prospective other expenses. In case of fire insurance rates, consideration

shall be given to the experience of the fire insurance business during a period of not less than five (5) years next preceding the year in which the review is made;

"(e) Risk may be grouped by classifications for the establishment of rates and minimum premiums. Classification rates may be modified to produce rates for individual risks in accordance with rating plans which establish standards for measuring variations in hazards or expense provisions, or both. Such standards may measure any difference among risks that can be demonstrated to have a probable effect upon losses or expenses.

"SEC. 359. No rating organization and no insurance company which makes and files its own rates shall make or promulgate any rate or schedule of rates which is to be applied to any fire risk on the condition that the whole amount of insurance on any risk or any specified part thereof shall be placed with the members of or subscribers to such rating organization or with such insurer.

"SEC. 360. Every insurance company doing business in the Philippines shall annually file with the rating organization of which it is a member or subscriber, or with such other agency as the Commissioner may designate, a statistical report showing a classification schedule of its premiums and losses on all kinds or types of insurance business to which Section 358 is applicable, and such other information as the Commissioner may deem necessary or expedient for the administration of the provisions of this title.

"SEC. 361. Every non-life rating organization and every non-life insurance company doing business in the Philippines shall file with the Commissioner, except as to risks which by general custom of the business are not written according to manual rates or rating plans, every rate manual, schedule of rates, classification of risks, rating plan, and every other rating rule and every modification of any of the foregoing which it proposes to use. An insurance company may satisfy

its obligation to make such filings for any kind or type of insurance by becoming a member of or subscriber to a rating organization which makes such filings for such kind or type of insurance, and by authorizing the Commissioner to accept such filings of the rating organization on behalf of such insurance company.

"SEC. 362. Every manual or schedule of rates and every rating plan filed as provided in the preceding section shall state or clearly indicate the character and extent of the coverage to which any such rate or any modification thereof will be applied.

"SEC. 363. The Commissioner shall review filings as soon as reasonably possible after they have been made in order to determine whether they meet the requirements of this title. When a filing is not accompanied by the information upon which the insurance company supports such filing, and the Commissioner does not have sufficient information to determine whether such filing meets the requirements of this title, he shall require such insurance company to furnish the information upon which it supports such filing. The information furnished in support of a filing may include:

"(a) The experience or judgment of the insurance company or rating organization making the filing;

"(b) Its interpretation of any statistical data it relies upon;

"(c) The experience of other insurance companies or rating organization; or

"(d) Any other relevant factors.

"SEC. 364. If the Commissioner finds that any rate filings theretofore filed with him do not comply with the provisions of this title or that they provide rates or rules which are inadequate, excessive, unfairly discriminatory or otherwise unreasonable, he may order the same withdrawn and at the expiration of sixty (60) days thereafter the same shall

be deemed no longer on file. Before making any such finding and order, the Commissioner shall give notice, not less than ten (10) days in advance, and a hearing, to the rating organization, or to the insurer, which filed the same. Such order shall not affect any contract or policy made or issued prior to the expiration of such sixty (60)-day period.

"SEC. 365. No member or subscriber of a rating organization, and no insurance company doing business in the Philippines, or agent, employee or other representative of such company, and no insurance broker shall charge or demand a rate or receive a premium which deviates from the rates, rating plans, classifications, schedules, rules and standards, made and last filed by a rating organization or by or on behalf of the insurance company, or shall issue or make any policy or contract involving a violation of such rate filings.

"SEC. 366. Notwithstanding any other provisions of this title, upon the written application of the insurer, stating his reasons therefor, filed with and approved by the Commissioner, a rate in excess of that provided by a filing otherwise applicable may be used on any specific risk.

"SEC. 367. Whenever the Commissioner shall determine, after notice and a hearing, that the rates charged or filed on any class of risks are excessive, discriminatory, inadequate or unreasonable, he shall order that such rates be appropriately adjusted. For the purpose of applying the provisions of this section, the Commissioner may from time to time approve reasonable classifications of risks for any or all such classes, having due regard to the past and prospective loss experience, including conflagration or catastrophe hazards, if any, to all other relevant factors and to a reasonable profit.

"SEC. 368. Nothing contained in this title shall be construed as requiring any insurer to become a member of or subscriber to any rating organization.

"SEC. 369. Agreements may be made among insurance companies with respect to the equitable apportionment among them of insurance which may be afforded applicants who are in good faith entitled to but are unable to procure such insurance through ordinary methods and such insurance companies may agree among themselves on the use of reasonable rates and modifications for such insurance, such agreements and rate modifications to be subject to the approval of the Commissioner: *Provided, however,* That the provisions of this section shall not be deemed to apply to workmen's compensation insurance.

"SEC. 370. No insurance company doing business in the Philippines or any agent thereof, no insurance broker, and no employee or other representative of any such insurance company, agent, or broker, shall make, procure or negotiate any contract of insurance or agreement as to policy contract, other than is plainly expressed in the policy or other written contract issued or to be issued as evidence thereof, or shall directly or indirectly, by giving or sharing a commission or in any manner whatsoever, pay or allow or offer to pay or allow to the insured or to any employee of such insured, either as an inducement to the making of such insurance or after such insurance has been effected, any rebate from the premium which is specified in the policy, or any special favor or advantage in the dividends or other benefits to accrue thereon, or shall give or offer to give any valuable consideration or inducement of any kind, directly or indirectly, which is not specified in such policy or contract of insurance; nor shall any such company, or any agent thereof, as to any policy or contract of insurance issued, make any discrimination against any Filipino in the sense that he is given less advantageous rates, dividends or other policy conditions or privileges than are accorded to other nationals because of his race.

"SEC. 371. No insurance company doing business in the Philippines, and no officer, director, or agent thereof, and no insurance broker or any other person, partnership or corporation shall issue or circulate or cause or permit to be issued or circulated any literature, illustration, circular or statement of any sort misrepresenting the terms of any policy issued by any insurance company of the benefits or advantages promised thereby, or any misleading estimate of the dividends or share of surplus to be received thereon, or shall use any name or title of any policy or class of policies misrepresenting the true nature thereof; nor shall any such company or agent thereof, or any other person, partnership or corporation make any misleading representation or incomplete comparison of policies to any person insured in such company for the purpose of inducing or tending to induce such person to lapse, forfeit, or surrender his said insurance.

"SEC. 372. If the Commissioner, after notice and hearing, finds that any insurance company, rating organization, agent, broker or other person has violated any of the provisions of this title, it shall order the payment of a fine not to exceed Twenty-five thousand pesos (P25,000.00) for each such offense, and shall immediately suspend or revoke the license issued to such insurance company, rating organization, agent, or broker. The issuance, procurement or negotiation of a single policy or contract of insurance shall be deemed a separate offense.

"TITLE 8

"PROVISION COMMON TO AGENTS, BROKERS AND ADJUSTERS

"SEC. 373. A license issued to a partnership, association or corporation to act as an insurance agent, general agent, insurance broker, reinsurance broker, or adjuster shall authorize only the individual named in the license who shall qualify therefor as

though an individual licensee. The Commissioner shall charge, and the licensee shall pay, a full additional license fee as to each respective individual so named in such license in excess of one.

"Licenses and certificates of registration issued under the provisions of this chapter may be renewed by the filing of notices of intention on forms to be prescribed by the Commissioner and payment of the fees therefor.

"SEC. 374. The Commissioner, in consultation with the duly accredited associations representing the insurance industry, shall adopt and promulgate a code of conduct to promote integrity, honesty and ethical business practices among insurance agents, distributors and other intermediaries.

"TITLE 9

"BANCASSURANCE

"SEC. 375. The term *bancassurance* shall mean the presentation and sale to bank customers by an insurance company of its insurance products within the premises of the head office of such bank duly licensed by the Bangko Sentral ng Pilipinas or any of its branches under such rules and regulations which the Commissioner and the Bangko Sentral ng Pilipinas may promulgate. To engage in bancassurance arrangement, a bank is not required to have equity ownership of the insurance company. No insurance company shall enter into a bancassurance arrangement unless it possesses all the requirements as may be prescribed by the Commissioner and the Bangko Sentral ng Pilipinas.

"No insurance product under this section, whether life or non-life, shall be issued or delivered unless in the form previously approved by the Commissioner.

"SEC. 376. Personnel tasked to present and sell insurance products within the bank premises shall be duly licensed by the Commissioner and shall be subject to the rules and regulations of this Act.

"SEC. 377. The Commissioner and the Bangko Sentral ng Pilipinas shall promulgate rules and regulations to effectively supervise the business of bancassurance.

"CHAPTER V
"SECURITY FUND

"SEC. 378. There is hereby created a fund to be known as the Security Fund which shall be used in the payment of allowed claims against an insurance company authorized to transact business in the Philippines remaining unpaid by reason of the insolvency of such company. The said Fund may also be used to reinsure the policy of the insolvent insurer in any solvent insurer authorized to do business in the Philippines as provided in Section 256. The Fund may likewise be used to pay insured claims which otherwise would not be compensable under the provisions of the policy. No payment from the Security Fund shall, however, be made to any person who owns or controls ten percent (10%) or more of the voting shares of stock of the insolvent insurer and no payment on any one claim shall exceed Twenty thousand pesos (P20,000.00).

"SEC. 379. Such Fund shall consist of all payments made to the Fund by insurance companies authorized to do business in the Philippines. Payments made by life insurance companies shall be treated separately from those made by non-life insurance companies and the corresponding fund shall be called Life Account and Non-Life Account, respectively, and shall be held and administered as such by the Commissioner in accordance with the provisions of this title. The Life Account shall be utilized exclusively for disbursements that refer to life insurance companies, while the Non-Life Account shall be utilized exclusively for disbursements that refer to non-life insurance companies.

"SEC. 380. All insurance companies doing business in the Philippines shall contribute to the Security Fund, Life or Non-Life Account, as the case may be, the aggregate amount of Five million pesos

(P5,000,000.00) for each Account. The contributions of the life insurance companies and of the non-life insurance companies shall be in direct proportion to the ratio between a particular life insurance company or a particular non-life insurance company's net worth and the aggregate net worth of all life insurance companies or all non-life insurance companies, as the case may be, as shown in their latest financial statements approved by the Commissioner. This proportion applied to the Five million pesos (P5,000,000.00) shall be the contribution of a particular company to the corresponding Account of the Security Fund.

"The amount of Five million pesos (P5,000,000.00) in each Account shall be in the form of a revolving trust fund. The respective contributions of the companies shall remain as admitted assets in their books and any disbursement therefrom shall be deducted proportionately from the contributions of each company which will be allowed as deductions for income tax purposes. Any earnings of the Fund shall be turned over to the contributing companies in proportion to their contributions.

"In the case of disbursements of funds from the Fund as provided in the foregoing paragraph, the life and non-life companies, as the case may be, shall replenish the amount disbursed in direct proportion to the individual company's net worth and the aggregate net worth of the life or non-life companies, as the case may be. However, in no case shall the Fund exceed the aggregate amount of Ten million pesos (P10,000,000.00), or Five million pesos (P5,000,000.00) for each Account.

"Should the Fund, Life or Non-Life Account, as the case may be, be inadequate for a disbursement as provided for, then the Life or Non-Life companies, as the case may be, shall contribute to the Fund their respective shares in the proportion previously mentioned.

"SEC. 381. The Commissioner may adopt, amend, and enforce all reasonable rules and regulations necessary for the proper administration of the Fund and of the Accounts. In the event any insurer shall fail to make any payment required by this title, or that any payment made is incorrect, he shall have full authority to examine all the books and records of the insurer for the purpose of ascertaining the facts and shall determine the correct amount to be paid and may proceed in any court of competent jurisdiction to recover for the benefit of the Fund or of the Account concerned any sum shown to be due upon such examination and determination. Any insurer which fails to make any payment to the Fund or to the Account concerned when due, shall thereby forfeit to said Fund or Account concerned a penalty of five percent (5%) of the amount determined to be due as provided by this title, plus one percent (1%) of such amount for each month of delay or fraction thereof, after the expiration of the first month of such delay, but the Commissioner, if satisfied that the delay was excusable, may remit all or any part of such penalty. The Commissioner, in his discretion, may suspend or revoke the certificate of authority to do business in the Philippines of any insurance company which shall fail to comply with this title or to pay any penalty imposed in accordance therewith.

"SEC. 382. The Accounts created by this title shall be separate and apart from each other and from any other fund. The Treasurer of the Philippines shall be the custodian of the Life Account and Non-Life Account of the Security Fund; and all disbursements from any Account shall be made by the Treasurer of the Philippines upon vouchers signed by the Commissioner or his deputy, as hereinafter provided. The moneys of said Account may be invested by the Commissioner only in bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities. The Commissioner may sell any

of the securities in which an Account is invested, if advisable, for its proper administration or in the best interest of such Account.

"SEC. 383. Payments from either the Life Insurance Account or Non-Life Account, as the case may be, shall be made by the Treasurer of the Philippines to the Commissioner, upon the authority of appropriate certificate filed with him by the Commissioner acting in such capacity.

"SEC. 384. The Commissioner may, in his discretion, designate or appoint a duly authorized representative or representatives to appear and defend before any court or other body or official having jurisdiction any or all actions or proceedings against principals or assureds on insurance policies or contracts issued to them where the insurer has become insolvent or unable to meet its insurance obligations. The Commissioner shall have, as of the date of insolvency of such insurer or as of the date of its inability to meet its insurance obligations, only the rights which such insurer would have had if it had not become insolvent or unable to meet its insurance obligations. For the purpose of this title, the Commissioner shall have power to employ such counsel, clerks and assistants as he may deem necessary.

"SEC. 385. The expense of administering an Account shall be paid out of the Account concerned. The Commissioner shall serve as administrator of the Fund and of the Accounts without additional compensation, but may be allowed and paid from the Account concerned expenses incurred in the performance of his duties in connection with said Account. The compensation of those persons employed by the Commissioner shall be deemed administration expense payable from the Account concerned. The Commissioner shall include in his annual report to the Secretary of Finance a statement of the expenses of administration of the Fund and of the Life Account and Non-Life Account for the preceding year.

"CHAPTER VI

"COMPULSORY MOTOR VEHICLE
LIABILITY INSURANCE

"SEC. 386. For purposes of this chapter:

"(a) *Motor Vehicle* is any vehicle as defined in Section 3, paragraph (a) of Republic Act No. 4136, otherwise known as the 'Land Transportation and Traffic Code'.

"(b) *Passenger* is any fare paying person being transported and conveyed in and by a motor vehicle for transportation of passengers for compensation, including persons expressly authorized by law or by the vehicle's operator or his agents to ride without fare.

"(c) *Third party* is any person other than a passenger as defined in this section and shall also exclude a member of the household, or a member of the family within the second degree of consanguinity or affinity, of a motor vehicle owner or land transportation operator, as likewise defined herein, or his employee in respect of death, bodily injury, or damage to property arising out of and in the course of employment.

"(d) *Owner or motor vehicle owner* means the actual legal owner of a motor vehicle, in whose name such vehicle is duly registered with the Land Transportation Office;

"(e) *Land transportation operator* means the owner or owners of motor vehicles for transportation of passengers for compensation, including school buses.

"(f) *Insurance policy or Policy* refers to a contract of insurance against passenger and third-party liability for death or bodily injuries and damage to property arising from motor vehicle accidents.

"SEC. 387. It shall be unlawful for any land transportation operator or owner of a motor vehicle to operate the same in the public highways unless there is in force in relation thereto a policy of insurance or guaranty in cash or surety bond issued in accordance with the provisions of this chapter to indemnify the death, bodily injury, and/or damage to property of a third-party or passenger, as the case may be, arising from the use thereof.

"SEC. 388. The Commissioner shall furnish the Land Transportation Office with a list of insurance companies authorized to issue the policy of insurance or surety bond required by this chapter.

"SEC. 389. The Land Transportation Office shall not allow the registration or renewal of registration of any motor vehicle without first requiring from the land transportation operator or motor vehicle owner concerned the presentation and filing of a substantiating documentation in a form approved by the Commissioner evidencing that the policy of insurance or guaranty in cash or surety bond required by this chapter is in effect.

"SEC. 390. Every land transportation operator and every owner of a motor vehicle shall, before applying for the registration or renewal of registration of any motor vehicle, at his option, either secure an insurance policy or surety bond issued by any insurance company authorized by the Commissioner or make a cash deposit in such amount as herein required as limit of liability for purposes specified in Section 387.

"(a) In the case of a land transportation operator, the insurance guaranty in cash or surety bond shall cover liability for death or bodily injuries of third-parties and/or passengers arising out of the use of such vehicle in the amount not less than Twelve thousand pesos (P12,000.00) per passenger or third-party and an amount, for each of such categories, in any one accident of not less than that set forth in the following scale:

"(1) Motor vehicles with an authorized capacity of twenty-six (26) or more passengers: Fifty thousand pesos (P50,000.00);

"(2) Motor vehicles with an authorized capacity of from twelve (12) to twenty-five (25) passengers: Forty thousand pesos (P40,000.00);

"(3) Motor vehicles with an authorized capacity of from six (6) to eleven (11) passengers: Thirty thousand pesos (P30,000.00);

"(4) Motor vehicles with an authorized capacity of five (5) or less passengers: Five thousand pesos (P5,000.00) multiplied by the authorized capacity.

Provided, however, That such cash deposit made to, or surety bond posted with, the Commissioner shall be resorted to by him in cases of accidents the indemnities for which to third-parties and/or passengers are not settled accordingly by the land transportation operator and, in that event, the said cash deposit shall be replenished or such surety bond shall be restored within sixty (60) days after impairment or expiry, as the case may be, by such land transportation operator, otherwise, he shall secure the insurance policy required by this chapter. The aforesaid cash deposit may be invested by the Commissioner in readily marketable government bonds and/or securities.

"(b) In the case of an owner of a motor vehicle, the insurance or guaranty in cash or surety bond shall cover liability for death or injury to third-parties in an amount not less than that set forth in the following scale in any one accident:

"(1) Private Cars

"(i) Bantam: Twenty thousand pesos (P20,000.00);

"(ii) Light: Twenty thousand pesos (P20,000.00); and

"(iii) Heavy: Thirty thousand pesos (P30,000.00).

"(2) Other Private Vehicles

"(i) Tricycles, motorcycles and scooters: Twelve thousand pesos (P12,000.00);

"(ii) Vehicles with an unladen weight of 2,600 kilos or less: Twenty thousand pesos (P20,000.00);

"(iii) Vehicles with an unladen weight of between 2,601 kilos and 3,930 kilos: Thirty thousand pesos (P30,000.00); and

"(iv) Vehicles with an unladen weight over 3,930 kilos: Fifty thousand pesos (P50,000.00).

"The Commissioner may, if warranted, set forth schedule of indemnities for the payment of claims for death or bodily injuries with the coverages set forth herein.

"SEC. 391. Any claim for death or injury to any passenger or third-party pursuant to the provisions of this chapter shall be paid without the necessity of proving fault or negligence of any kind: *Provided,* That for purposes of this section:

"(a) The total indemnity in respect of any person shall not be less than Fifteen thousand pesos (P15,000.00);

"(b) The following proofs of loss, when submitted under oath, shall be sufficient evidence to substantiate the claim:

"(1) Police report of accident; and

"(2) Death certificate and evidence sufficient to establish the proper payee; or

"(3) Medical report and evidence of medical or hospital disbursement in respect of which refund is claimed;

"(c) Claim may be made against one motor vehicle only. In the case of an occupant of a vehicle, claim shall lie against the insurer of the vehicle in which the occupant is riding, mounting or

dismounting from. In any other case, claim shall lie against the insurer of the directly offending vehicle. In all cases, the right of the party paying the claim to recover against the owner of the vehicle responsible for the accident shall be maintained.

"SEC. 392. No land transportation operator or owner of motor vehicle shall be unreasonably denied the policy of insurance or surety bond required by this chapter by the insurance companies authorized to issue the same, otherwise, the Land Transportation Office shall require from said land transportation operator or owner of the vehicle, in lieu of a policy of insurance or surety bond, a certificate that a cash deposit has been made with the Commissioner in such amount required as limits of indemnity in Section 390 to answer for the passenger and/or third-party liability of such land transportation operator or owner of the vehicle.

"No insurance company may issue the policy of insurance or surety bond required under this chapter unless so authorized under existing laws.

"The authority to engage in the casualty and/or surety lines of business of an insurance company that refuses to issue or renew, without just cause, the insurance policy or surety bond therein required shall be withdrawn immediately.

"SEC. 393. No cancellation of the policy shall be valid unless written notice thereof is given to the land transportation operator or owner of the vehicle and to the Land Transportation Office at least fifteen (15) days prior to the intended effective date thereof. Upon receipt of such notice, the Land Transportation Office, unless it receives evidence of a new valid insurance or guaranty in cash or surety bond as prescribed in this chapter, or an endorsement of revival of the cancelled one, shall order the immediate confiscation of the plates of the motor vehicle covered by such cancelled policy. The same may be reissued only upon presentation of a new insurance policy or that a guaranty in cash or surety

bond has been made or posted with the Commissioner and which meets the requirements of this chapter, or an endorsement or revival of the cancelled one.

"SEC. 394. If the cancellation of the policy or surety bond is contemplated by the land transportation operator or owner of the vehicle, he shall, before the policy or surety bond ceases to be effective, secure a similar policy of insurance or surety bond to replace the policy or surety bond to be cancelled or make a cash deposit in sufficient amount with the Commissioner, and without any gap, file the required documentation with the Land Transportation Office, and notify the insurance company concerned of the cancellation of its policy or surety bond.

"SEC. 395. In case of change of ownership of a motor vehicle, or change of the engine of an insured vehicle, there shall be no need of issuing a new policy until the next date of registration or renewal of registration of such vehicle, and: *Provided*, That the insurance company shall agree to continue the policy, such change of ownership or such change of the engine shall be indicated in a corresponding endorsement by the insurance company concerned, and a signed duplicate of such endorsement shall, within a reasonable time, be filed with the Land Transportation Office.

"SEC. 396. In the settlement and payment of claims, the indemnity shall not be availed of by any accident victim or claimant as an instrument of enrichment by reason of an accident, but as an assistance or restitution insofar as can fairly be ascertained.

"SEC. 397. Any person having any claim upon the policy issued pursuant to this chapter shall, without any unnecessary delay, present to the insurance company concerned a written notice of claim setting forth the nature, extent and duration of the injuries sustained as certified by a duly

licensed physician. Notice of claim must be filed within six (6) months from the date of accident, otherwise, the claim shall be deemed waived. Action or suit for recovery of damage due to loss or injury must be brought, in proper cases, with the Commissioner or the courts within one (1) year from denial of the claim, otherwise, the claimant's right of action shall prescribe.

"SEC. 398. The insurance company concerned shall forthwith ascertain the truth and extent of the claim and make payment within five (5) working days after reaching an agreement. If no agreement is reached, the insurance company shall pay only the no-fault indemnity provided in Section 391 without prejudice to the claimant from pursuing his claim further, in which case, he shall not be required or compelled by the insurance company to execute any quit claim or document releasing it from liability under the policy of insurance or surety bond issued.

"In case of any dispute in the enforcement of the provisions of any policy issued pursuant to this chapter, the adjudication of such dispute shall be within the original and exclusive jurisdiction of the Commissioner, subject to the limitations provided in Section 439.

"SEC. 399. It shall be unlawful for a land transportation operator or owner of motor vehicle to require his or its drivers or other employees to contribute in the payment of premiums.

"SEC. 400. No government office or agency having the duty of implementing the provisions of this chapter nor any official or employee thereof shall act as agent in procuring the insurance policy or surety bond provided for herein. The commission of an agent procuring the said policy or bond shall in no case exceed ten percent (10%) of the amount of the premiums therefor.

"SEC. 401. Any land transportation operator or owner of motor vehicle or any other person violating any of the provisions of the preceding sections shall be punished by a fine of not less than Five hundred pesos (P500.00) and/or imprisonment for not more than six (6) months. The violation of Section 390 by a land transportation operator shall be a sufficient cause for the revocation of the certificate of public convenience issued by the Land Transportation Franchising and Regulatory Board covering the vehicle concerned.

"SEC. 402. Whenever any violation of the provisions of this chapter is committed by a corporation or association, or by a government office or entity, the executive officer or officers of said corporation, association or government office or entity who shall have knowingly permitted, or failed to prevent, said violation shall be held liable as principals.

"CHAPTER VII

"MUTUAL BENEFIT ASSOCIATIONS AND TRUSTS FOR CHARITABLE USES

"TITLE 1

"MUTUAL BENEFIT ASSOCIATIONS

"SEC. 403. Any society, association or corporation, without capital stock, formed or organized not for profit but mainly for the purpose of paying sick benefits to members, or of furnishing financial support to members while out of employment, or of 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, or of providing, by the issuance of certificates of insurance, payment of its members of accident or life insurance benefits out of such fixed and regular dues or assessments, but in no case shall include any society, association, or corporation with such mutual benefit features and which shall be carried out purely from voluntary contributions

collected not regularly and/or no fixed amount from whomsoever may contribute, shall be known as a mutual benefit association within the intent of this Code.

"Any society, association, or corporation principally organized as a labor union shall be governed by the Labor Code notwithstanding any mutual benefit feature provisions in its charter as incident to its organization.

"In no case shall a mutual benefit association be organized and authorized to transact business as a charitable or benevolent organization, and whenever it has this feature as incident to its existence, the corresponding charter provision shall be revised to conform with the provision of this section. Mutual benefit association, already licensed to transact business as such on the date this Code becomes effective, having charitable or benevolent feature shall abandon such incidental purpose upon effectivity of this Code if they desire to continue operating as such mutual benefit associations.

"SEC. 404. A mutual benefit association, before it may transact as such, must first secure a license from the Commissioner. The application for such license shall be filed with the Commissioner together with certified true copies of the articles of incorporation or the constitution and bylaws of the association, and all amendments thereto, and such other documents or testimonies as the Commissioner may require.

"No license shall be granted to a mutual benefit association until the Commissioner shall have been satisfied by such examination as he may make and such evidence as he may require that the association is qualified under existing laws to operate and transact business as such. The Commissioner may refuse to issue a license to any mutual benefit association if, in his judgment, such refusal will best promote the interest of the members of such

association and of the people of this country. Any license issued shall expire on the last day of December of the third year following its issuance and, upon proper application, may be renewed if the association is continuing to comply with existing laws, rules and regulations, orders, instructions, rulings and decisions of the Commissioner. Every association receiving any such license shall be subject to the supervision of the Commissioner: *Provided*, That no such license shall be granted to any such association if such association has no actuary.

"SEC. 405. No mutual benefit association shall be issued a license to operate as such unless it has constituted and established a Guaranty Fund by depositing with the Commissioner an initial minimum amount of Five million pesos (P5,000,000.00) in cash, or in government securities with a total value equal to such amount, to answer for any valid benefit claim of any of its members.

"All moneys received by the Commissioner for this purpose must be deposited by him in interest-bearing deposits with any bank or banks authorized to transact business in the Philippines for the account of the particular association constituting the Guaranty Fund.

"Any accrual to such fund, be it interest earned or dividend additions on moneys or securities so deposited, may, with the prior approval of the Commissioner, be withdrawn by the association if there is no pending benefit claim against it, including interest thereon or dividend additions thereto.

"The Commissioner, prior to or after licensing a mutual benefit association, may require such association to increase its Guaranty Fund from the initial minimum amount required to an amount equal to the capital investment required of an existing domestic insurance company under Section 209 of this Code.

"SEC. 406. Every mutual benefit association licensed to do business as such shall issue membership certificates to its members specifying the benefits to which such members are entitled.

"Such certificates, together with the articles of incorporation of the association or its constitution and bylaws, and all existing laws as may be pertinent shall constitute the agreement, as of the date of its issuance, between the association and the member. The membership certificate shall be in a form previously approved by the Commissioner.

"SEC. 407. A mutual benefit association may, by reinsurance agreement, cede in whole or in part any individual risk or risks under certificates of insurance issued by it, only to a life insurance company authorized to transact business or to a professional reinsurer authorized to accept life risks in the Philippines: *Provided*, That a copy of the draft of such reinsurance agreement shall be submitted to the Commissioner for his approval. The association may take credit for the reserves on such ceded risks to the extent reinsured.

"SEC. 408. The constitution or bylaws of a mutual benefit association must distinctly state the purpose for which dues and/or assessments are made and collected and the portion thereof which may be used for expenses.

"Death benefit and other relief funds shall be created and used exclusively for paying benefits due the members under their respective membership certificates. A general fund shall likewise be created and used for expenses of administration of the association.

"A mutual benefit association shall only maintain free and unassigned surplus of not more than twenty percent (20%) of its total liabilities as verified by the Commissioner. Any amount in excess shall be returned to the members by way of dividends,

enhancing the equity value or providing benefits in kind and other relevant services. In addition, subject to the approval of the Commissioner, a mutual benefit association may allocate a portion for capacity building and research and development such as developing new products and services, upgrading and improving operating systems and equipment and continuing member education.

"SEC. 409. Every outstanding membership certificate must have an equity value equivalent to at least fifty percent (50%) of the total contributions collected thereon. The equity value only applies to basic life insurance product and excludes optional products.

"SEC. 410. Every mutual benefit association must accumulate and maintain, out of the periodic dues collected from its members, sufficient reserves for the payment of claims or obligations for which it shall hold funds in securities satisfactory to the Commissioner consisting of bonds of the Government of the Philippines, or any of its political subdivisions and instrumentalities, or in such other good securities as may be approved by the Commissioner.

"The reserve liability shall be established in accordance with actuarial procedures and shall be approved by the Commissioner.

"The articles of incorporation or the constitution and bylaws of a mutual benefit association must provide that if its reserve as to all or any class of certificates becomes impaired, its board of directors or trustees may require that there shall be paid by the members to the association the amount of the members' equitable proportion of such deficiency as ascertained by said board and that if the payment be not made it shall stand as an indebtedness against the membership certificates of the defaulting members and draw interest not to exceed five percent (5%) per annum compounded annually.

"SEC. 411. A mutual benefit association may invest such portion of its funds as shall not be required to meet pending claims and other obligations in any of the classes of investments or types of securities in which life insurance companies doing business in the Philippines may invest.

"It may also grant loans to members on the security of a pledge or chattel mortgage of personal properties of the borrowers, or in the absence thereof, on the security of the membership certificate of the borrowing members, in which event such loan shall become a first lien on the proceeds thereof.

"SEC. 412. The Commissioner or any of his duly designated representatives, shall have the power of visitation, audit and examination into the affairs, financial condition, and methods of doing business of all mutual benefit associations, and he shall cause such examination to be made at least once every two (2) years or whenever it may be deemed proper and necessary. Free access to the books, records and documents of the association shall be accorded to the Commissioner, or to his representatives, in such manner that the Commissioner or his representatives may readily verify or determine the true affairs, financial condition, and method of doing business of such association. In the course of such examination, the Commissioner or his duly designated representatives shall have authority to administer oaths and take testimony or other evidence on any matter relating to the affairs of the association.

"All minutes of the proceedings of the board of directors or trustees of the association, and those of the regular or special meetings of the members, shall be taken, and a copy thereof, in English or in Pilipino, shall be submitted to the Commissioner's representatives or examiners in the course of such examination.

"A copy of the findings of such examination, together with the recommendations of the Commissioner, shall be furnished the association for

its information and compliance, and the same shall be taken up immediately in the meetings of the board of directors or trustees and of the members of the association.

"SEC. 413. Every mutual benefit association shall, annually on or before the thirtieth day of April of each year, render to the Commissioner an annual statement in such form and detail as may be prescribed by the Commissioner, signed and sworn to by the president, secretary, treasurer, and actuary of the association, showing the exact condition of its affairs on the preceding thirty-first day of December.

"SEC. 414. No money, aid or benefit to be paid, provided or tendered by any mutual benefit association, shall be liable to attachment, garnishment, or other process, or be seized, taken, appropriated, or applied by any legal or equitable process to pay any debt or liability of a member or beneficiary, or any other person who may have a right thereunder, either before or after payment.

"SEC. 415. Any member of a mutual benefit association shall have the right at all times to change the beneficiary or beneficiaries or add another beneficiary or other beneficiaries in accordance with the rules and regulations of the association unless he has expressly waived this right in the membership certificate. Every association may, under such rules as it may adopt, limit the scope of beneficiaries and provide that no beneficiary shall have or obtain any vested interest in the proceeds of any certificate until the certificate has become due and payable under the terms of the membership certificate.

"SEC. 416. Any chapter affiliate independently licensed as a mutual benefit association may consolidate or merge with any other similar chapter affiliate or with the mother association.

"SEC. 417. Any mutual benefit association may be converted into and licensed as a mutual life insurance company by complying with the requirements of the pertinent provisions of this Code

and submitting the specific plan for such conversion to the Commissioner for his approval. Such plan, as approved, shall then be submitted to the members either in the regular meeting or in a special meeting called for the purpose for their adoption. The affirmative vote of at least two-thirds (2/3) of all the members shall be necessary in order to consider such plan as adopted.

"No such conversion shall take effect unless and until approved by the Commissioner.

"SEC. 418. No mutual benefit association shall be dissolved without first notifying the Commissioner and furnishing him with a certified copy of the resolution authorizing the dissolution, duly adopted by the affirmative vote of two-thirds (2/3) of the members at a meeting called for that purpose, the financial statements as of the date of the resolution, and such other papers or documents as may be required by the Commissioner.

"No dissolution shall proceed until and unless approved by the Commissioner and all proceedings in connection therewith shall be witnessed and attested by his duly designated representative.

"No mutual benefit association shall be officially declared as dissolved until after the Commissioner so certifies that all outstanding claims against the association have been duly settled and liquidated.

"SEC. 419. The Commissioner shall, after notice and hearing, have the power either to suspend or revoke the license issued to a mutual benefit association if he finds that the association has:

"(a) Failed to comply with any provision of this Code;

"(b) Failed to comply with any other law or regulation obligatory upon it;

"(c) Failed to comply with any order, ruling, instruction, requirement or recommendation of the Commissioner;

"(d) Exceeded its power to the prejudice of its members;

"(e) Conducted its business fraudulently or hazardously;

"(f) Rendered its affairs and condition to one of insolvency; or

"(g) Failed to carry out its aims and purposes for which it was organized due to any cause.

"After receipt of the order from the Commissioner suspending or revoking the license, the association must immediately exert efforts to remove such cause or causes which brought about the order and, upon proper showing, may apply with the Commissioner for the lifting of the order and restoration or revival of the license so revoked or suspended.

"SEC. 420. For failure to remove such cause or causes which brought about the suspension or revocation of the license of a mutual benefit association, the Commissioner shall apply under this Code for an order from the proper court to liquidate such association.

"The provisions of Titles 14 and 15, Chapter III, pertaining to the appointment of a conservator and proceedings upon insolvency of an insurance company shall, insofar as practicable, apply to mutual benefit associations.

"SEC. 421. To secure the enforcement of any provision under this title, the Commissioner may issue such rules, rulings, instructions, orders and circulars.

"SEC. 422. The violation of any provision of this title shall subject the person violating or the officer of the association responsible therefor to a fine of not less than Ten thousand pesos (P10,000.00), or imprisonment of not exceeding three (3) years, or both such fine and imprisonment, at the discretion of the court.

"SEC. 423. All provisions of this Code governing life insurance companies and such other provisions whenever practicable and necessary, shall be applicable to mutual benefit associations.

"TITLE 2

"TRUSTS FOR CHARITABLE USES

"SEC. 424. The term *trust for charitable uses*, within the intent of this Code, shall include, all the real or personal properties or funds, as well as those acquired with the fruits or income therefrom or in exchange or substitution thereof, given to or received by any person, corporation, association, foundation, or entity, except the National Government, its instrumentalities or political subdivisions, for charitable, benevolent, educational, pious, religious, or other uses for the benefit of the public at large or a particular portion thereof or for the benefit of an indefinite number of persons.

"SEC. 425. The term *trustee* shall include any individual, corporation, association, foundation, or entity, except the National Government, its instrumentalities or political subdivisions, in charge of, or acting for, or concerned with the administration of, the trust referred to in the section immediately preceding and with the proper application of trust property.

"SEC. 426. The term *trust property* shall include all real or personal properties or funds pertaining to the trust as well as those acquired with the fruits or income therefrom or in exchange or substitution thereof.

"SEC. 427. All trustees shall, before entering in the performance of the duties of their trust, obtain a certificate of registration from the Commissioner. The registration shall expire on December 31 of the third year following its issuance unless it is renewed.

"All provisions of this Code governing mutual benefit associations and such other provisions herein, whenever practicable and necessary, shall be applicable to trusts for charitable uses.

"SEC. 428. The treasurer of a charitable trust shall file a fidelity bond in the amount commensurate with the value of the trust property in his custody, as may be determined by the Commissioner.

"CHAPTER VIII

"TRUST BUSINESS IN GENERAL

"SEC. 429. An insurance company may engage in limited trust business, consisting of managing funds pertaining only to retirement and pre-need plans, provided it has secured a license to do so from the Bangko Sentral ng Pilipinas. This trust business shall be separate and distinct from the general business of the insurance company and shall be subject to rules and regulations as may be promulgated by the Bangko Sentral ng Pilipinas in consultation with the Commissioner.

"CHAPTER IX

"REGISTRATION, RESPONSIBILITIES AND
OVERSIGHT OF SELF-REGULATORY
ORGANIZATIONS

"SEC. 430. The Commissioner shall have the power to register as a self-regulatory organization, or otherwise grant licenses, and to regulate, supervise, examine, suspend or otherwise discontinue, as a condition for the operation of organizations whose operations are related to or connected with the insurance market such as, but not limited to, associations of insurance companies, whether life or non-life, reinsurers, actuaries, agents, brokers, dealers, mutual benefit associations, trusts, rating agencies, and other persons regulated by the Commissioner, which are engaged in the business regulated by this Code.

"The Commissioner may prescribe rules and regulations which are necessary or appropriate in the public interest or for the protection of investors to govern self-regulatory organizations and other organizations licensed or regulated pursuant to the authority granted hereunder including, but not limited to, the requirement of cooperation within and among all participants in the insurance market to ensure transparency and facilitate exchange of information.

"SEC. 431. An association cannot be registered as a self-regulatory organization unless the Commissioner determines that:

"(a) The association is so organized and has the capacity to be able to carry out the purposes of this Code and to comply with, and to enforce compliance by its members and persons associated with its members, with the provisions of this Code, the rules and regulations thereunder, and the rules of the association.

"(b) The rules of the association, notwithstanding anything in the Corporation Code to the contrary, provide the following:

"(1) Qualifications and the disqualifications on membership of the association;

"(2) A fair representation of its members to serve on the board of directors of the association and the administration of its affairs, and that any natural person associated with a juridical entity that is a member shall also be deemed to be a member for this purpose;

"(3) The president of the association and at least two (2) independent directors as members of the board of directors of the association;

"(4) Equitable allocation of reasonable dues, fees, and other charges among members and other persons using any facility or system which the association operates or controls;

"(5) The prevention of fraudulent and manipulative acts and practices to protect the insuring public and the promotion of just and equitable principles of business;

"(6) Members and persons associated with its members subject to discipline for violation of any provision of this Code, the rules or regulations thereunder, or the rules of the association;

"(7) Fair procedure for the disciplining of members and persons associated with members; and

"(8) The prohibition or limitation of access to services offered by the association or a member thereof.

"SEC. 432. A self-regulatory organization may examine and verify the qualifications of an applicant to become a member in accordance with procedures established by the rules of the association.

"A self-regulatory organization shall deny membership or condition the membership of an entity, if it does not meet the standards of financial responsibility, operational capability, training, experience, or competence that are prescribed by the rules of the association; or has engaged, and there is a reasonable likelihood it will again engage, in acts or practices inconsistent with just and equitable principles of fair trade.

"A self-regulatory organization may deny membership to an entity not engaged in a type of business in which the rules of the association require members to be engaged.

"SEC. 433. Upon the filing of an application for registration as a self-regulatory organization under this title, the Commissioner shall have ninety (90) days within which to either grant registration or institute a proceeding to determine whether registration should be denied. In the event proceedings are instituted, the Commissioner shall have two hundred seventy (270) days within which to conclude such proceedings at which time he shall, by order, grant or deny such registration.

"SEC. 434. Every self-regulatory organization shall comply with the provisions of this Code, the rules and regulations thereunder, and its own rules, and enforce compliance therewith by its members, persons associated with its members or its participants, notwithstanding any provision of the Corporation Code to the contrary.

"SEC. 435. Each self-regulatory organization shall submit to the Commissioner for prior approval any proposed rule or amendment thereto, together with a concise statement of the reason and effect of the proposed amendment.

"Within sixty (60) days after submission of a proposed amendment, the Commissioner shall, by order, approve the proposed amendment. Otherwise, the same may be made effective by the self-regulatory organization.

"In the event of an emergency requiring action for the protection of the insuring public, a self-regulatory organization may put a proposed amendment into effect summarily. *Provided, however,* That a copy of the same shall be immediately submitted to the Commissioner.

"The Commissioner is further authorized, if after making appropriate request in writing to a self-regulatory organization that such organization effect on its own behalf specified changes in its rules and practices and, after due notice and hearing, it determines that such changes have not been effected, and that such changes are necessary, by rule or regulation or by order, may alter, abrogate or supplement the rules of such self-regulatory organization insofar as necessary or appropriate to effect such changes in respect of such matters as:

"(a) Safeguards in respect of the financial responsibility of members and adequate provision against the evasion of financial responsibility through the use of corporate forms or special partnerships;

"(b) The supervision of market practices;

"(c) The manner, method and place of soliciting business;

"(d) The fixing of reasonable rates of fees, interest, listing and other charges, but not rates of commission; and self-regulatory organization; and

"(e) The supervision, auditing and disciplining of members.

"In addition to the general powers of the Commissioner over the entities under supervision, the Commissioner, after due notice and hearing, is authorized, in the public interest and to protect the insuring public:

"(1) To suspend for a period not exceeding twelve (12) months or to revoke the registration of a self-regulatory organization, or to censure or impose limitations on the activities, functions and operations of such self-regulatory organization, if the Commission finds that such a self-regulatory organization has willfully violated or is unable to comply with any provision of this Code or of the rules and regulations thereunder, or its own rules, or has failed to enforce compliance therewith by a member of, person associated with a member, or a participant in such self-regulatory organization;

"(2) To expel from a self-regulatory organization any member thereof or any participant therein who is found to have willfully violated any provision of this Code or suspend for a period not exceeding twelve (12) months for violation of any provision of this Code or any other law administered by the Commission, or the rules and regulations thereunder, or effected, directly or indirectly, any transaction for any person who, such member or participant had reason to believe, was violating in respect of such transaction any of such provisions; and

"(3) To remove from office or censure any officer or director of a self-regulatory organization if it finds that such officer or director has violated any provision of this Code, any other law administered by the Commissioner, the rules or regulations thereunder and the rules of such self-regulatory organization, or has abused his authority, or without reasonable justification or excuse has failed to enforce compliance with any of such provisions.

"SEC. 436. (a) A self-regulatory organization is authorized to discipline a member of or participant in such self-regulatory organization, or any person associated with a member, including suspending or expelling such member or participant, or suspending or barring such person from being associated with a member, if engaged in acts or practices inconsistent with just and equitable principles of fairness or in willful violation of any provision of this Code, any other law administered by the Commission, the rules or regulations thereunder, or the rules of the self-regulatory organization. In any disciplinary proceeding by a self-regulatory organization (other than a summary proceeding pursuant to paragraph (b) of this section) the self-regulatory organization shall bring specific charges, provide notice to the person charged, afford the person charged with an opportunity to defend against the charges, and keep a record of the proceedings. A determination to impose a disciplinary sanction shall be supported by a written statement of the offense, a summary of the evidence presented and a statement of the sanction imposed.

"(b) A self-regulatory organization may summarily:

"(1) Suspend a member, participant or person associated with a member who has been or is expelled or suspended from any other self-regulatory organization; or

"(2) Suspend a member who the self-regulatory organization finds to be in such financial or operating difficulty that the member or participant cannot be

permitted to continue to do business as a member with safety to investors, creditors, other members, participants or the self-regulatory organization: *Provided*, That the self-regulatory organization immediately notifies the Commission of the action taken. Any person aggrieved by a summary action pursuant to this paragraph shall be promptly afforded an opportunity for a hearing by the association in accordance with the preceding paragraph. The Commissioner, by order, may stay a summary action on his own or upon application by any person aggrieved thereby, if the Commissioner determines summarily or after due notice and hearing (which hearing may consist solely of the submission of affidavits or presentation of oral arguments), that a stay is consistent with the public interest and the protection of the insuring public.

"(c) A self-regulatory organization shall promptly notify the Commission of any disciplinary sanction on any member thereof or participant therein, any denial of membership or participation in such organization, or the imposition of any disciplinary sanction on a person associated with a member or a bar of such person from becoming so associated. Within thirty (30) days after such notice, any aggrieved person may appeal to the Commissioner from, or the Commissioner on its own motion within such period, may institute review of, the decision of the self-regulatory organization, at the conclusion of which, after due notice and hearing (which may consist solely of review of the record before the self-regulatory organization), the Commissioner shall affirm, modify or set aside the sanction. In such proceeding, the Commissioner shall determine whether the aggrieved person has engaged or omitted to engage in the acts and practices as found by the self-regulatory organization, whether such acts and practices constitute willful violations of this Code, any other law administered by the Commission, the rules or regulations thereunder, or the rules of the self-regulatory organization as specified by such

organization, whether such provisions were applied in a manner consistent with the purposes of this Code, and whether, with due regard for the public interest and the protection of investors, the sanction is excessive or oppressive.

"CHAPTER X

"THE INSURANCE COMMISSIONER

"TITLE 1

"ADMINISTRATIVE AND ADJUDICATORY POWERS

"SEC. 437. The Insurance Commissioner shall be appointed by the President of the Republic of the Philippines for a term of six (6) years without reappointment and who shall serve as such until the successor shall have been appointed and qualified. If the Insurance Commissioner is removed before the expiration of his term of office, the reason for the removal must be published.

"The Insurance Commissioner shall have the duty to see that all laws relating to insurance, insurance companies and other insurance matters, mutual benefit associations, and trusts for charitable uses are faithfully executed and to perform the duties imposed upon him by this Code, and shall, notwithstanding any existing laws to the contrary, have sole and exclusive authority to regulate the issuance and sale of variable contracts as defined in Section 238 hereof and to provide for the licensing of persons selling such contracts, and to issue such reasonable rules and regulations governing the same.

"The Commissioner may issue such rulings, instructions, circulars, orders and decisions as may be deemed necessary to secure the enforcement of the provisions of this Code, to ensure the efficient regulation of the insurance industry in accordance with global best practices and to protect the insuring public. Except as otherwise specified, decisions made by the Commissioner shall be appealable to the Secretary of Finance.

"In addition to the foregoing, the Commissioner shall have the following powers and functions:

"(a) Formulate policies and recommendations on issues concerning the insurance industry, advise Congress and other government agencies on all aspects of the insurance industry and propose legislation and amendments thereto;

"(b) Approve, reject, suspend or revoke licenses or certificates of registration provided for by this Code;

"(c) Impose sanctions for the violation of laws and the rules, regulations and orders issued pursuant thereto;

"(d) Prepare, approve, amend or repeal rules, regulations and orders, and issue opinions and provide guidance on and supervise compliance with such rules, regulations and orders;

"(e) Enlist the aid and support of, and/or deputize any and all enforcement agencies of the government in the implementation of its powers and functions under this Code;

"(f) Issue cease and desist orders to prevent fraud or injury to the insuring public;

"(g) Punish for contempt of the Commissioner, both direct and indirect, in accordance with the pertinent provisions of and penalties prescribed by the Rules of Court;

"(h) Compel the officers of any registered insurance corporation or association to call meetings of stockholders or members thereof under its supervision;

"(i) Issue subpoena *duces tecum* and summon witnesses to appear in any proceeding of the Commission and, in appropriate cases, order the examination, search and seizure of all documents, papers, files and records, tax returns, and books of accounts of any entity or person under investigation

as may be necessary for the proper disposition of the cases before it, subject to the provisions of existing laws;

"(j) Suspend or revoke, after proper notice and hearing, the license or certificate of authority of any entity or person under its regulation, upon any of the grounds provided by law;

"(k) Conduct an examination to determine compliance with laws and regulations if the circumstances so warrant as determined by appropriate rules and regulations;

"(l) Investigate not oftener than once a year from the last date of examination to determine whether an institution is conducting its business on a safe and sound basis: *Provided*, That, the deficiencies/irregularities found by or discovered by an audit shall be immediately addressed;

"(m) Inquire into the solvency and liquidity of the institutions under its supervision and enforce prompt corrective action;

"(n) To retain and utilize, in addition to its annual budget, all fees, charges and other income derived from the regulation of insurance companies and other supervised persons or entities;

"(o) To fix and assess fees, charges and penalties as the Commissioner may find reasonable in the exercise of regulation; and

"(p) Exercise such other powers as may be provided by law as well as those which may be implied from, or which are necessary or incidental to the express powers granted the Commission to achieve the objectives and purposes of this Code.

"The Commission shall indemnify the Commissioner, Deputy Commissioner, and other officials of the Commission, including personnel performing supervision and examination functions, for all costs and expenses reasonably incurred by such

persons in connection with any civil or criminal actions, suits or proceedings to which they may be made a party to by the reason of the performance of their duties and functions, unless they are finally adjudged in such actions, suits or proceedings to be liable for negligence or misconduct.

"In the event of settlement or compromise, indemnification shall be provided only in connection with such matters covered by the settlement as to which the Commission is advised by external counsel that the persons to be indemnified did not commit any negligence or misconduct.

"The costs and expenses incurred in defending the aforementioned action, suit or proceeding may be paid by the Commission in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the Commissioner, Deputy Commissioner, officer or employee to repay the amount advanced should it ultimately be determined by the Commission that the person is not entitled to be indemnified.

"SEC. 438. In addition to the administrative sanctions provided elsewhere in this Code, the Insurance Commissioner is hereby authorized, at his discretion, to impose upon insurance companies, their directors and/or officers and/or agents, for any willful failure or refusal to comply with, or violation of any provision of this Code, or any order, instruction, regulation, or ruling of the Insurance Commissioner, or any commission or irregularities, and/or conducting business in an unsafe or unsound manner as may be determined by the Insurance Commissioner, the following:

"(a) Fines not less than Five thousand pesos (P5,000.00) and not more than Two hundred thousand pesos (P200,000.00); and

"(b) Suspension, or after due hearing, removal of directors and/or officers and/or agents.

"SEC. 439. The Commissioner shall have the power to adjudicate claims and complaints involving any loss, damage or liability for which an insurer may be answerable under any kind of policy or contract of insurance, or for which such insurer may be liable under a contract of suretyship, or for which a reinsurer may be sued under any contract of reinsurance it may have entered into; or for which a mutual benefit association may be held liable under the membership certificates it has issued to its members, where the amount of any such loss, damage or liability, excluding interest, cost and attorney's fees, being claimed or sued upon any kind of insurance, bond, reinsurance contract, or membership certificate does not exceed in any single claim Five million pesos (P5,000,000.00).

"The power of the Commissioner does not cover the relationship between the insurance company and its agents/brokers but is limited to adjudicating claims and complaints filed by the insured against the insurance company.

"The Commissioner may authorize any officer or group of officers under him to conduct investigation, inquiry and/or hearing and decide claims and he may issue rules governing the conduct of adjudication and resolution of cases. The Rules of Court shall have suppletory application.

"The party filing an action pursuant to the provisions of this section thereby submits his person to the jurisdiction of the Commissioner. The Commissioner shall acquire jurisdiction over the person of the impleaded party or parties in accordance with and pursuant to the provisions of the Rules of Court.

"The authority to adjudicate granted to the Commissioner under this section shall be concurrent with that of the civil courts, but the filing of a complaint with the Commissioner shall preclude the civil courts from taking cognizance of a suit involving the same subject matter.

"Any decision, order or ruling rendered by the Commissioner after a hearing shall have the force and effect of a judgment. Any party may appeal from a final order, ruling or decision of the Commissioner by filing with the Commissioner within thirty (30) days from receipt of copy of such order, ruling or decision a notice of appeal to the Court of Appeals in the manner provided for in the Rules of Court for appeals from the Regional Trial Court to the Court of Appeals.

"For the purpose of any proceeding under this section, the Commissioner, or any officer thereof designated by him is empowered to administer oaths and affirmation, subpoena witnesses, compel their attendance, take evidence, and require the production of any books, papers, documents, or contracts or other records which are relevant or material to the inquiry.

"A full and complete record shall be kept of all proceedings had before the Commissioner, or the officers thereof designated by him, and all testimony shall be taken down and transcribed by a stenographer appointed by the Commissioner.

"In order to promote party autonomy in the resolution of cases, the Commissioner shall establish a system for resolving cases through the use of alternative dispute resolution.

"TITLE 2

"FEES AND OTHER SOURCES OF FUNDS

"SEC. 440. (a) For the issuance or renewal of certificates of authority, licenses and certificates of registration, pursuant to pertinent provisions of this Code, the Commissioner shall collect and receive fees which shall be not less than the following:

"For each certificate of authority issued to an insurance company doing business in the Philippines, Two hundred pesos (P200.00).

"For each special certificate of authority issued to a servicing insurance company, One hundred pesos (P100.00).

"For each license issued to a general agent of an insurance company, Fifty pesos (P50.00).

"For each license issued to an insurance agent, Twenty-five pesos (P25.00).

"For each license issued to an agent of variable contract policy, Twenty-five pesos (P25.00).

"For each license issued to an insurance broker, One hundred pesos (P100.00).

"For each license issued to a reinsurance broker, One hundred pesos (P100.00).

"For each license issued to an insurance adjuster, One hundred pesos (P100.00).

"For each certificate of registration issued to an actuary, Fifty pesos (P50.00).

"For each certificate of registration issued to a resident agent, Fifty pesos (P50.00).

"For each license issued to a rating organization, One hundred pesos (P100.00).

"For each certificate of registration issued to a non-life company underwriter, Fifty pesos (P50.00).

"For each license issued to a mutual benefit association, Ten pesos (P10.00).

"For each certificate of registration issued to a trust for charitable uses, Ten pesos (P10.00).

"All certificates of authority and all other licenses, as well as all certificates of registration, issued to any person, partnership, association or corporation under the pertinent provisions of this Code for which no expiration date has been prescribed, shall expire on the last day of December of the third year from its issuance and shall be renewed upon application therefor and payment of the corresponding fee, if the licensee or holder of such license or certificate is continuing to comply with all the applicable provisions of existing laws, and of rules, instructions, orders and decisions of the Commissioner.

"(b) For the filing of the annual statement referred to in Section 229, the Commissioner shall collect and receive from the insurance company so filing a fee of not less than Five hundred pesos (P500.00): *Provided*, That a fine of not less than One hundred pesos (P100.00) shall be imposed and collected by the Commissioner for each week of delay, or any fraction thereof, in the filing of the annual statement.

"For the filing of annual statement referred to in Section 413, the Commissioner shall collect and receive from the mutual benefit association so filing a fee of not less than Ten pesos (P10.00): *Provided*, That a fine of not less than Ten pesos (P10.00) shall be imposed and collected by the Commissioner for each week of delay, or any fraction thereof, in the filing of the annual statement.

"(c) For the examination prescribed in Section 253, the Commissioner shall collect and receive fees according to the amount of its total assets, in the case of a domestic company, or of its assets in the Philippines, in the case of a foreign company, not less than the amount as follows:

"(1) Two million pesos or more but less than Four million pesos, Four hundred pesos (P400.00);

"(2) Four million pesos or more but less than Six million pesos, Eight hundred pesos (P800.00);

"(3) Six million pesos or more but less than Eight million pesos, One thousand two hundred pesos (P1,200.00);

"(4) Eight million pesos or more but less than Ten million pesos, One thousand six hundred pesos (P1,600.00);

"(5) Ten million pesos or more, Two thousand pesos (P2,000.00);

Provided, That if the said examination is made in places outside the Metropolitan Manila area, besides these fees, the Commissioner shall require of

the company examined the payment of the actual and necessary travelling and subsistence expenses of the examiner or examiners concerned.

"For the examination prescribed in Section 412, the Commissioner shall collect and receive a minimum fee of not less than One hundred pesos (P100.00) from the mutual benefit association examined: *Provided*, That if such association has total assets of more than One hundred thousand pesos (P100,000.00), an additional fee of not less than Ten pesos (P10.00) for every Fifty thousand pesos (P50,000.00) in excess thereof shall be imposed:

"(d) For the filing of an application to withdraw from the Philippines under Title 18, the Commissioner shall collect and receive from the foreign company so withdrawing a fee of not less than One thousand pesos (P1,000.00).

"(e) The Commissioner may fix and collect fees or charges for documents, transcripts, or other materials which may be furnished by him not in excess of reasonable cost.

"SEC. 441. The Commissioner, in accordance with the rules and regulations of the Department of Budget and Management and other relevant regulatory agencies, shall source the salary, allowances and other expenses from the retained amount of the fees, charges, penalties and other income from the regulation of insurance companies and other covered persons and entities, and from the Insurance Fund, which is created out of the proceeds of taxes on insurance premiums mentioned in Section 255 of the National Internal Revenue Code, as amended.

"MISCELLANEOUS PROVISIONS

"SEC. 442. Any person, company or corporation subject to the supervision and control of the Commissioner who violates any provision of this Code, for which no penalty is provided, shall be deemed guilty of a penal offense, and upon conviction be

punished by a fine not exceeding Two hundred thousand pesos (P200,000.00) or imprisonment of six (6) months, or both, at the discretion of the court.

"If the offense is committed by a company or corporation, the officers, directors, or other persons responsible for its operation, management, or administration, unless it can be proved that they have taken no part in the commission of the offense, shall likewise be guilty of a penal offense, and upon conviction be punished by a fine not exceeding Two hundred thousand pesos (P200,000.00) or imprisonment of six (6) months, or both, at the discretion of the court.

"SEC. 443. All criminal actions for the violation of any of the provisions of this Code shall prescribe after three (3) years from the discovery of such violation: *Provided*, That such actions shall in any event prescribe after ten (10) years from the commission of such violation.

"SEC. 444. Any person, partnership, association or corporation heretofore authorized, licensed or registered by the Commissioner shall be deemed to have been authorized, licensed or registered under the provisions of this Code and shall be governed by the provisions thereof: *Provided, however*, That where any such person, partnership, association or corporation is affected by the new requirements of this Code, said person, partnership, association or corporation shall, unless otherwise herein provided, be given a period of one (1) year from the effectivity of this Code within which to comply with the same.

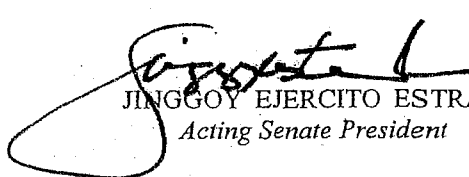
"SEC. 445. *Transitory Provision.* - Renewal of existing licenses, certificates of authority or accreditation which will expire on June 30, 2013 shall be valid until December 31, 2015. Thereafter, renewal shall be filed on the last day of December every third year following the date of expiry of the license, certificate of authority or accreditation.

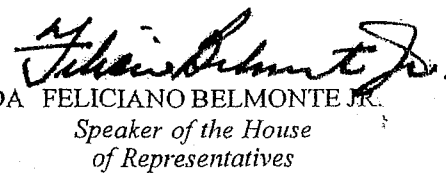
"SEC. 446. *Repealing Clause.* - Except as expressly provided by this Code, all laws, decrees, orders, rules and regulations or parts thereof, inconsistent with any provision of this Code shall be deemed repealed, amended or modified accordingly.

"SEC. 447. *Separability Clause.* - If any provision of this Code or any part hereof be declared invalid or unconstitutional, the remainder of the law or other provisions not otherwise affected shall remain valid and subsisting.

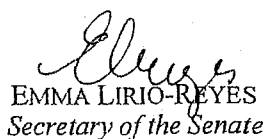
"SEC. 448. This Code shall take effect fifteen (15) days following its publication in a newspaper of general circulation."

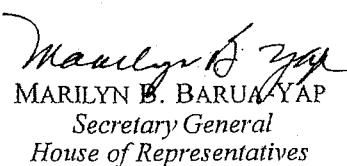
Approved,


JINGGOY EJERCITO ESTRADA *Acting Senate President*

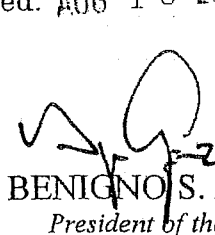

FELICIANO BELMONTE JR. *Speaker of the House of Representatives*


This Act which is a consolidation of House Bill No. 4867 and Senate Bill No. 3280 was finally passed by the House of Representatives and the Senate on February 6, 2013.

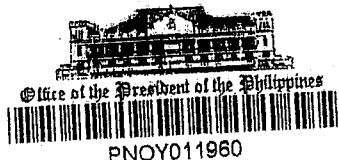

EMMA LIRIO-REYES
Secretary of the Senate


MARILYN B. BARUA YAP
Secretary General House of Representatives

Approved: AUG 15 2013


BENIGNO S. AQUINO III
President of the Philippines





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CERTIFIED COPY:


MARIANITO M. DIMAANDAL
DIRECTOR IV
MALACANANG RECORDS OFFICE

8-23-2013 8-23-2013