

NINETEENTH CONGRESS OF THE )  
REPUBLIC OF THE PHILIPPINES )  
*First Regular Session* )

22 SEP 27 P2:10

SENATE

S. No. 1348



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Introduced by Senator MANUEL "LITO" M. LAPID

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**AN ACT**  
**AMENDING SECTIONS 48, 77, 176, 181, 194 AND 238 OF PRESIDENTIAL**  
**DECREE NO. 612, OTHERWISE KNOWN AS "THE INSURANCE CODE", AS**  
**AMENDED**

**EXPLANATORY NOTE**

Insurance is vital to the nation and our people. It has proven to be a source of security and protection during critical times. The growth and stability of this industry is anchored on an effective framework of laws and rules that addresses current and future developments. It is for this reason that Presidential Decree No. 612, otherwise known as the Insurance Code, which was enacted almost 47 years ago was amended by several laws through the years, the most recent of which was Republic Act (RA) 10607 enacted on August 15, 2013.

Various improvements in compliance standards and practices were set including financial and governance requirements. The trust and confidence of the insuring public, the ability of the industry to provide better services and a nurturing regulatory environment are sought to be achieved. The past years showed evident success in the attainment of its objectives.

However, to further build on such gains, there are certain amendments to the law that need to be made, most critical of which is the requirement for insurance companies to have a minimum net worth of one billion three hundred thousand pesos (P1,300,000,000.00) by December 31, 2022.

To further ensure financial stability, the Insurance Code has gradually increased the

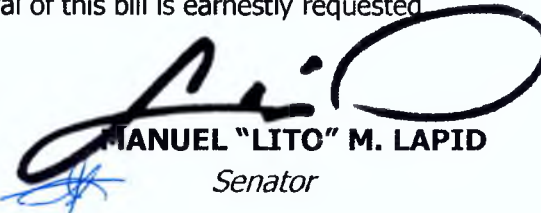
required capitalization of insurance companies to two hundred fifty million pesos (P250,000,000.00) in June 30, 2013, to five hundred fifty million pesos (P550,000,000.00) in December 31, 2016, to nine hundred million pesos (P900,000,000.00) in December 31, 2019 and to one billion three hundred thousand pesos (P1,300,000,000.00) by December 31, 2022.

A review of comparative and advanced markets, particularly in ASEAN, would show that the final increase in the required capitalization by December 31, 2022 would make the Philippine requirement the highest in the region considering our market size. Furthermore, our net worth requirements are more stringent than the fixed paid-up capital required in other ASEAN countries. The Risk-Based Capital Framework as set forth in the Insurance Code has continued to be a more reasonable safeguard to measure the capacity of a company to meet its financial obligations.

The COVID-19 epidemic has had far-reaching effects and consequences to our economy, the insurance industry is no exception. While remaining resilient and compliant, the industry needs to continuously meet its obligations. Thus, a reprieve from the legislative imposition of the final minimum capitalization is needed to help the industry face its challenges more reasonably and equitably. Moving forward, public interest is still adequately served since the mechanism to determine and impose the subsequent capitalization requirements are provided for in the insurance code.

There are other amendments to the Insurance Code that are necessary to improve services to the insuring public. These include the ability of insurance companies to directly pay healthcare providers and expand their range of insurance products to offer. The bill also seeks to clarify the issue on the incontestability of coverage as affected by the death of the insured within the two-year incontestability period and when premium payment impacts on the contract as valid and binding. The bill also clarifies that the definition and feature of variable contracts are not collective investment scheme and properly construed as insurance products.

In view of the foregoing, the approval of this bill is earnestly requested

  
**MANUEL "LITO" M. LAPID**  
*Senator*

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2 **AMENDING SECTIONS 48, 77, 176, 181, 194 AND 238 OF PRESIDENTIAL**  
3 **DECREE NO. 612, OTHERWISE KNOWN AS "THE INSURANCE CODE", AS**  
4 **AMENDED**

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

5 SECTION 1. Section 48 of Presidential Decree No. 612, as amended, is hereby  
6 further amended to read as follows:

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

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

18 **THE DEATH OF THE INSURED DURING THE TWO-**  
19 **YEAR PERIOD FROM THE DATE OF THE ISSUANCE**

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**OF THE POLICY OR OF ITS LAST REINSTATEMENT  
SHALL NOT RENDER THE POLICY INCONTESTABLE."**

SECTION 2. Section 77 of Presidential Decree No. 612, as amended, is hereby further amended to read as follows:

"Section 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, **OR IN THE CASE OF INSTALLMENT MODE OF PAYMENT ALLOWED BY THE INSURER, THE INITIAL INSTALLMENT PREMIUM IS 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."

SECTION 3. Section 176 of Presidential Decree No. 612, as amended, is hereby further amended to read as follows:

"Section 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

1 written by non-life insurance companies, and other  
2 substantially similar kinds of insurance.

3 **WHERE THE HEALTH INSURANCE CONTRACT**  
4 **PROVIDES THAT ALL OR A PORTION OF**  
5 **INDEMNITIES PROVIDED BY ANY SUCH POLICY ON**  
6 **ACCOUNT OF HOSPITAL, NURSING, MEDICAL OR**  
7 **SURGICAL SERVICES, OR UPON THE CONSENT OF**  
8 **THE INSURED OR GROUP POLICYHOLDER, POLICY**  
9 **BENEFITS MAY BE PAID DIRECTLY TO THE**  
10 **HOSPITAL, MEDICAL FACILITIES OR PERSON**  
11 **RENDERING SUCH SERVICES."**

12 SECTION 4. Section 181 of Presidential Decree No. 612, as amended, is hereby  
13 further amended to read as follows:

14 "Section 181. Life insurance is insurance on human lives  
15 and insurance appertaining thereto or connected  
16 therewith.

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

23 **HEALTH INSURANCE, APPERTAINING OR**  
24 **CONNECTED TO A LIFE INSURANCE CONTRACT, TO**  
25 **INDEMNIFY THE INSURED FOR MEDICAL**  
26 **EXPENSES, THROUGH ASSUMPTION OF FINANCIAL**  
27 **RISK AND POOLING OF FUNDS FOR RISK**  
28 **DISTRIBUTION, SHALL BE CONSIDERED AS A LIFE**  
29 **INSURANCE CONTRACT. NOTHING IN THIS CODE**

1           **SHALL PROHIBIT THE INSURER TO PROVIDE OR**  
2           **ARRANGE MEDICAL SERVICES INCIDENTAL TO THE**  
3           **PRIMARY PURPOSE OF INDEMNIFYING AGAINST**  
4           **LOSS, DAMAGE OR LIABILITY UPON THE**  
5           **OCCURRENCE OF AN UNKNOWN OR CONTINGENT**  
6           **EVENT OR ILLNESS."**

7           SECTION 5. Section 194 of Presidential Decree No. 612, as amended, is hereby  
8 further amended to read as follows:

9           "Section 194. Except as provided in Section 289, no new  
10 domestic life or non-life insurance company shall, in a stock  
11 corporation, engage in business in the Philippines unless  
12 possessed of a paid-up capital equal to at least One billion  
13 pesos (P1,000,000,000.00):

14           Provided, That a domestic insurance company already  
15 doing business in the Philippines shall have a net worth by  
16 June 30, 2013 of Two hundred fifty million pesos  
17 (P250,000,000.00). Furthermore, said company must have  
18 by December 31, 2016, an additional Three hundred million  
19 pesos (P300,000,000.00) in net worth **AND**; by December  
20 31, 2019, an additional Three hundred fifty million pesos  
21 (P350,000,000.00) in net worth; **[and by December**  
22 **31,2022, and additional Four hundred million**  
23 **pesos]**.

24           **SUCH DOMESTIC INSURANCE COMPANY SHALL**  
25           **MEET AND COMPLY WITH THE RISK-BASED**  
26           **CAPITAL STANDARDS AS MAY BE PRESCRIBED BY**  
27           **THE COMMISSION AS PREREQUISITE IN THE**  
28           **RENEWAL OF ITS CERTIFICATE OF AUTHORITY AND**  
29           **CONDITION FOR ITS CONTINUED OPERATION.**

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xxx."

SECTION 6. Section 238 of Presidential Decree No. 612, as amended, is hereby further amended to read as follows:

"xxx.

"Section 238(b). The term variable contract shall mean any policy or contract with either a group or an individual basis issued by an insurance company providing for benefits or other contractual payments or values thereunder to vary so as to reflect investments 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 investment 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 regulation under said Acts. **NEITHER SHALL IT BE DEEMED AS A COLLECTIVE INVESTMENT SCHEME CONSIDERING THAT IT IS, AS HEREBY DEFINED AS CONTRACT OF INSURANCE WITH INEXTRICABLE INVESTMENT FEATURES AND AS SUCH SHALL BE EXCLUSIVELY REGULATED BY THE COMMISSION AND GOVERNED BY THE INSURANCE CODE."**

xxx."

1           SECTION. 7. *Separability Clause.* - If any provision of this Act shall be held  
2 unconstitutional or invalid, the other provisions not otherwise affected shall remain in  
3 full force and effect.

4           SECTION 8. *Repealing Clause.* - All laws, decrees, executive orders, rules and  
5 regulations or parts thereof which are contrary to or inconsistent with this Act are  
6 hereby repealed, amended or modified accordingly.

7           SECTION 9. *Effectivity.* - This Act shall take effect fifteen (15) days after its  
8 complete publication either in the Official Gazette or in a newspaper of general  
9 circulation.

10           *Approved,*