



25 June 2010

JOINT IC-CDA-SEC MEMORANDUM CIRCULAR NO. 02 - 2010

SUBJECT: GUIDELINES ON THE TREATMENT OF FUNDS COLLECTED FROM INFORMAL INSURANCE ACTIVITIES

Whereas, under IC-CDA-SEC Circular No. 1-2010 dated 29 January 2010, entities, including cooperatives and non-government organizations, currently engaged in unauthorized insurance or insurance-like activities (hereinafter referred to as informal insurance providers) shall terminate their informal insurance or insurance-like activities within one (1) year from the effective date of the Circular;

Whereas, informal insurance providers have previously collected contributions or premiums from individuals or groups of individuals (hereinafter referred to as contributors) covered by the unauthorized insurance or insurance-like activities;

Whereas, these contributions or premiums were placed in pools of funds by informal insurance providers for the purpose of covering the insurance benefits of the contributors;

Whereas, once the unauthorized insurance or insurance-like activity has been terminated in accordance with Joint Circular No. 1-2010, this pool of funds remains with the informal insurance provider although the insurance coverage has been transferred to or underwritten by an authorized insurance provider;

Whereas, the contributors still collectively own the accumulated funds even after the formalization; and

Whereas, there is a need to provide guidelines in the handling of these pools of funds in order to provide a smooth transition for the formalization of unauthorized insurance or insurance-like activity;

NOW, THEREFORE, for and in consideration of the aforementioned premises and pursuant to the authority vested in us under existing laws the following are hereby promulgated:

1. These guidelines shall cover the “pools of funds” collected by informal insurance providers that are going into formal insurance arrangements with authorized insurance or insurance-like providers, including Health Maintenance Organizations (HMOs) and Pre-Need corporations, in compliance with the provisions of the IC-CDA-SEC Joint Memorandum Circular 1-2010 dated 29 January 2010.
2. For purposes of this circular, “pools of funds” shall refer to deposit accounts, trust funds, securities, investments or such other monies of similar nature held by informal insurance providers arising from the collections of the contributions or premiums from contributors covered by unauthorized insurance or insurance-like activities.
3. “Pools of funds” accumulated by entities from the operations of unauthorized insurance or insurance-like activities shall be used exclusively for the benefit of the contributors who will continue to be covered by insurance or insurance-like contracts with authorized providers.
 - a. For entities partnering with existing authorized insurance or insurance-like product providers, the pool of funds shall be used in an equitable manner to pay for:
 - i. Premiums or fees of insurance or insurance-like products bought by the entity for the contributors from any authorized insurance or insurance-like provider; or
 - ii. Contributions, fees or dues, mandatory and/or voluntary, to Mutual Benefit Associations (MBAs) wherein the contributor shall become members.
 - b. In addition to Section 3.a above, the pool of funds of cooperatives may be utilized to cover the contributor’s share capital contributions to a single purpose or multipurpose primary cooperative that either:

- i. Is authorized and duly licensed to engage in insurance and insurance-like activities; or
- ii. Will join an existing Cooperative Insurance Society; or
- iii. Will organize with other primary cooperatives a federation or secondary cooperative authorized to provide for the insurance needs of the primary cooperatives and its members.

Excess funds, if any, shall be credited, in an equitable manner, to the members' savings accounts in the cooperative.

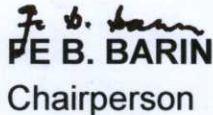
- c. For entities organizing an MBA, the pool of funds shall be entirely transferred, in behalf of the contributors, to the MBA concerned to cover and/or augment the Guaranty Fund requirement and pre-operating expenses; provided, the amount allocated for pre-operating expenses shall not exceed the lower of ten (10) percent of the amount of the transferred funds or one million and five hundred thousand pesos (Php 1,500,000.00).
4. Failure to formalize in accordance with the manner and within the time prescribed under these Guidelines and the Joint-IC-CDA-SEC Memorandum Circular No. 01-2010, shall, upon findings of the Insurance Commission (IC), warrant the referral to the Securities and Exchange Commission (SEC) or the Cooperative Development Authority (CDA), as the case may be, for possible commencement of revocation proceedings against the primary franchise of the erring entities or imposition of other administrative sanctions against said entities in accordance with the Batas Pambansa Blg. 68, otherwise known as the "Corporation Code of the Philippines" or Republic Act No. 9520 otherwise known as the "Cooperative Code of the Philippines". The revocation of primary franchise and/or imposition of administrative sanctions shall be without prejudice to the filing of criminal charges against the individuals responsible for the violation.
 5. Finally, nothing herein shall preclude the IC from initiating actions pursuant to Presidential Decree No. 1460, as amended, otherwise known as the "Insurance Code of the Philippines" against erring entities and the use of the Pools of Funds.

All entities that are going into formal arrangements to provide insurance or insurance-like products and services shall adhere to these guidelines.

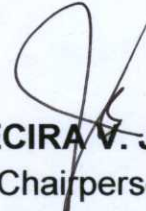
This Joint Memorandum Circular takes effect immediately.



SANTIAGO JAVIER RANADA
Insurance Commissioner
Insurance Commission

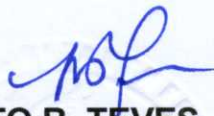


FE B. BARIN
Chairperson
Securities and Exchange Commission



LECIRA V. JUAREZ
Chairperson
Cooperative Development Authority

Noted by:



MARGARITO B. TEVES
Secretary
Department of Finance