

# Bond Tariff in the Philippines

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## INSURANCE FORUM

In the United States, the Surety Association of America was formed on November 12, 1908 with the view that the absence of adequate rate-making for bonds could spell disaster for sureties across America. Previous to this, rate-making was a matter

of guesswork. On October 1, 1909, the Towner Rating Bureau was organized and began to promulgate rates for all Surety Association companies based upon the aggregate experience and the composite underwriting judgment of such companies.

Today in the Philippines, surety premium rates are subject to minimum tariffs. Surety bonds were first tariffed on July 1, 1960 when the schedule of rates previously approved by the Secretary of Finance on February 26, 1954 went into effect. The implementation was ordered by then Insurance Commissioner Francisco Mandanas. Prior to tariffication, there were no standard premium rates. Hence, every surety company was free to charge any rate determined by him based on the risk to be guaranteed, the counter guarantee given, and the need of the applicant. In other words, it was based purely on market forces. It was then that the Insurance & Surety Association of the Philippines (ISAP) proposed a Schedule of Rates to be adopted by all non-life insurance companies.

Subsequently, the tariffs were amended on March 4, 1985 when Insurance Commissioner Gregoria Cruz Arnaldo approved the request of the Philippine Association of Surety Underwriters Inc. (PHILASURERS). The revised bond tariff took effect on April 15, 1985. Under this amendment, the minimum premium rate was increased from Php 10.00 to Php 100.00 for all bonds except firearms bonds, which was fixed at Php 50.00. The minimum amount in the graduated scale was increased from Php 5,000 to Php 15,000.

Finally, in 1995, the tariffs were again adjusted upon the request of the Philasurers through the Philippine Insurance Rating Association (PIRA). Insurance Commissioner Eduardo Malinis approved the amendment to the rules of rating on bonds in a letter to PIRA, Inc. dated August 28, 1995. The Amended Bond Rules and Rates took effect on September 1, 1995. This Amended Rules on Bonds was circularized by PIRA in Circular No. PIRA-1070/95 dated September 18, 1995. This circular includes a schedule of Rates for Bonds up to Php 15,000 (Schedule I) and Rates for Bonds over Php 15,000 (Schedule II). It also includes a General Classification of Bonds, classified

into five classes; as well as a list of abbreviated symbols or codes with pre-fixed serial numbers to be printed in the bond forms.

Rules were also promulgated. Under the Amended Rules, the annual premium on bonds that are to run for less than one year “shall be charged in full at the applicable rate per annum”. Moreover, “a reduction of 50% of the annual premium shall be allowed for bonds which are fully secured by either one or a combination of the following: i) assignment of bank deposits to the Surety; ii) Philippine government bonds, treasury certificate or other obligations guaranteed as to principal and interest by the Philippine government; iii) other kinds of securities which are allowable under the Insurance Code, as amended, for investment by insurance companies; and iv) real estate.” Furthermore, bonds which are fully secured shall be stamped with the words “Fully Secured” on the copy of the bond on file with the issuing company.

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