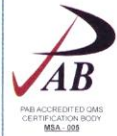




Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila



**IN THE MATTER OF THE
CLOSURE AND TERMINATION
OF THE LIQUIDATION PROCEEDINGS
OF FAR EASTERN SURETY & INSURANCE CO., INC.**

CRL Ref. No. 2023-01

X ----- X

DIRECTIVE

03 January 2023

This Directive is issued pursuant to Section 437, in relation to Section 256, of Republic Act (R.A.) No. 10607, otherwise known as the “Amended Insurance Code”, and for the purpose of closing and terminating the liquidation proceedings of **FAR EASTERN SURETY & INSURANCE CO., INC.** (“FESICO” for brevity).

On 14 April 2016, the Insurance Commission (IC) issued a Cease and Desist Order (CDO) against FESICO in accordance with Section 254 of R.A. No. 10607. On the same day, FESICO was also placed by IC under Conservatorship and appointed Atty. Mila Teresita SJ Racelis as Conservator for the company pursuant to Section 256 of the same law.

Subsequently thereafter, in view of the company President’s intention not to rehabilitate and further recommendation of the designated Liquidator, IC placed FESICO under Liquidation effective 22 September 2017.

A Notice to the Public was published in a newspaper of general circulation on 23 September 2017, to inform FESICO’s policyholders and other stakeholders about the decision of the Commission to place the Company under liquidation, with corresponding notice to file their claims against the company until 05 April 2018.

In IC letter dated 30 June 2020, in reply to Atty. Racelis’s Liquidation Plan for FESICO, the Commission noted that the last examination by the IC-Examiners on the company’s financial condition was done in 2016. Wherein the verification of the company’s 2014 Annual Statement resulted to the issuance of the aforementioned CDO and eventually, the Conservatorship. Hence, the Liquidator was directed to submit to this Commission a recommendation on the proposed IC-accredited external auditor to audit the financial statements of the company.

Nevertheless, despite the absence of IC-required Annual Statement and Audited Financial Statements of FESICO, the Commission has determined from the Liquidator's submitted Liquidation Plan that the company has a total assets amounting to PhP 270,619,984.83, as of 31 December 2017. On the other hand, its aggregate liabilities, per Liquidator's submitted Schedule of Claims Payable as of 30 June 2019, has a total value of PhP122,240,637.09.

The Commission further informed Atty. Racelis of its observations concerning the aforesaid Schedule of Claims Payable of FESICO, to wit:

"In your Schedule of Claims Payable as of 30 June 2019, you identified FESICO's insurance claims in total value amounting to Php 74,388,570.06, detailed as follows:

Per Liquidator's Evaluation	Total Value of Insurance Claim
1. For denial	18,344,374.37
2. For further Evaluation	36,858,757.80
3. For payment	19,185,437.89
Grand Total	Php 74,388,570.06

Further evaluation of your submitted Seriatim List shows that there are also two (2) reinsurance claims, which you considered for denial in total value of Php 271,294.01 that were inadvertently included in your list of corporate liabilities. These claims should have been included among the insurance claims of the company. Hence, the grand total value of your insurance claims against FESICO should have been **Php 74,659,864.07.**"

Applying a conservative approach for the payment of FESICO's insurance liabilities to be covered by the company's Security Deposits, the computation below shows a **Liquidation Value of 91.7%**:

<u>Total Security Deposits</u> ¹	-	<u>Php 68,519,995.10</u>
Total Insurance Claims	-	Php 74,659,864.07

Hence, the Commission decided to allow the payment of those valid claims of the policyholders that were filed within the prescribed deadline, subject to the following minimum guidelines:

1. Payment shall be made only to claimants whose insurance claims are duly verified and approved for payment by this Commission, upon the Liquidator's recommendation;
2. Payment shall be paid applying a conservative approach based on the Liquidation Value equivalent to 91.7% only;

¹ Per IC-Investment Services Division's Security Deposit Balance as of June 30, 2020.

3. The claimant must submit a notarized Undertaking and Quitclaim in favor of the Liquidator, the Insurance Commission and its officers and employees; and
4. This payment shall be considered as first tranche distribution, considering that the same will be paid based on a conservative approach. Thus, once the total claims are completely verified by your office, adjustment should be made for the payment of second tranche or final distribution of assets of FESICO.

Note that FESICO's Security Deposit that will cover the payment of the aforementioned insurance claims are exclusively earmarked for such payment in accordance with Section 209 of the Amended Insurance Code.²

Since the aforementioned IC's letter to Atty. Racelis in 2020, IC has only approved two (2) insurance claims against FESICO upon her recommendation to this Commission.

In view of the foregoing and considering the long period of time that FESICO has been placed under conservatorship and liquidation, and more than four (4) years since the expiration of the deadline for filing of claims against the company on 05 April 2018, as stated in its duly published Notice of Liquidation, the Commission has now decided to finally Close and Terminate its Liquidation Proceedings.

The Commission shall appoint a Distribution Officer ("DO" for brevity) in accordance with IC-Circular Letter No. 2022-31 dated 22 June 2022³, to distribute FESICO's Security Deposits to its policyholders with liquidation value equivalent to 91.7% only, subject to the above-enumerated minimum guidelines.

For this purpose, the designated DO shall review and evaluate the claim folders of all claimants/policyholders that were included in the Liquidator's duly submitted Schedule of Claims Payable of FESICO. The former shall also directly communicate to the concerned claimant/policyholder, for the submission of any additional documents to support their claim against the company.

² 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.

³ Guidelines on Formal Closure of Liquidation Proceedings for Insurance Companies under Liquidation and Final Disposal and Distribution of Assets Including Unclaimed Benefits.

While the distribution of the said Security Deposit is ongoing, the Commission, through the Conservatorship, Receivership and Liquidation (CRL) Division, with the assistance of the DO, shall have FESICO audited by an external auditor to determine its corporate assets and liabilities.

Thereafter, the distribution of FESICO's corporate assets must be recommended to this Commission by the DO within thirty (30) days after the submission of the External Auditor's Report. A subsequent IC Directive shall be issued by this Commission for the distribution of the corporate assets of FESICO.

The designated DO shall further cause the publication in a newspaper of general circulation of a Notice informing the Closure and Termination of Liquidation of FESICO, in addition to its posting in the IC website.

Within One (1) year from publication of the aforesaid Notice, the policyholders of FESICO must claim the liquidation value of their unpaid benefits under their existing insurance policy with the company. Otherwise, the same shall be considered as "*abandoned benefits*" and thereafter redistributed in accordance with IC-Circular Letter No. 2022-31 dated 22 June 2022.

SO ORDERED.

Manila, Philippines, 03 January 2023.



DENNIS B. FUNA
Insurance Commissioner

