

[Circular Letter No. 2017-06, February 02, 2017]

RULES AND REGULATIONS ON DEMUTUALIZATION OF DOMESTIC MUTUAL LIFE INSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES

*Adopted: 23 January 2017
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Pursuant to the powers vested in the Insurance Commissioner by Sections 437, 438 and 280 of Republic Act No. 10607, "An Act Strengthening the Insurance Industry, further amending Presidential Decree No. 612, otherwise known as the Insurance Code", as amended, the following **Rules and Regulations on the Demutualization of Domestic Mutual Life Insurance Companies Doing Business in the Philippines** are hereby adopted and promulgated:

TITLE I. GENERAL PROVISIONS

Section 1. Objectives of Regulatory Framework. - This Circular Letter provides for the regulatory framework for demutualization of domestic mutual life insurance companies doing business in the Philippines. This framework shall: (a) maintain the security and reasonable expectations of policyholder benefits; (b) promote fair and equitable treatment of the converting company and the members during the conversion process and empower them to decide on the approval or disapproval of the conversion proposal; (c) allow for an orderly and transparent demutualization process; and, (d) promote competitiveness and efficiency of the demutualized company to sustain the safety and soundness of the insurance industry and financial sector.

Section 2. Policy Statement and General Principles. - It is the policy of the Insurance Commission to afford full protection of policyholders through the security and reasonable expectations of benefits, the fair and equitable treatment of members and the interests of the converting company. The Commissioner shall not approve a conversion proposal unless, in his opinion, the policy intentions set out above are satisfied and that said conversion proposal will be fair and equitable in its implementation.

In going through a demutualization, the following key principles shall be adhered to:

- a) The demutualization process must be transparent. Key features and the financial and legal impact of the demutualization on policyholders and members must be timely and publicly fully disclosed.
- b) The converting company must allow the members to fully understand the demutualization proposal and to provide sufficient opportunity to make an informed and reasoned judgment with respect to

the demutualization proposal.

c) The company value of the converting company's membership rights must be determined realistically and allocated entirely and equitably to Eligible Members. The determination and allocation of the company's value must be done with expert assistance.

d) The converting company's safety and soundness must be maintained. The company must see to it that the policies' benefits are fully secured even after the demutualization.

e) The present management of the converting company shall be prevented from unduly benefiting from its demutualization. Conflict of interest must be avoided.

f) The Commission shall supervise the entire demutualization process to ensure that the State policy of public protection is fully enforced.

g) After demutualization, Eligible Members who may have exchanged their membership rights in the converting company for voting shares of stock in the converted company shall have the right, as a shareholder, to vote as well as representation in the board of directors of the converted company.

Section 3. Policyholders' Interest. - The interest of policyholders in the converted company shall be protected. Accordingly, the insurer shall ensure that:

a) The converted company will maintain the system in the management of policies with respect to the collection of premium and payment of claims;

b) The converted company will manage its operations and investments prudently; and,

c) The converted company will pay stockholders' dividends as may be determined by the Board of Directors in accordance with law.

Section 4. Definition of Terms. - For purposes of these Rules, the following terms shall mean or be understood as follows:

a) Commissioner refers to the Insurance Commissioner;

b) Conversion refers to the process of converting a mutual life insurance company, which is owned by its members, into a stock company owned by shareholders.

Conversion shall also refer to Demutualization;

c) Converted Company refers to the domestic mutual life company that has completed its conversion to a stock life insurance corporation;

d) Converting Company refers to the domestic mutual life insurance company that is proposing its conversion into a stock life insurance corporation, through the submission of a conversion proposal for approval of the members of the Converting Company, the Commissioner and other concerned regulatory agencies;

e) Completion Date refers to the date when the demutualization takes effect as found in Section 22 of these Rules;

f) Demutualization Benefit refers to compensation to be provided to Eligible Members upon conversion in exchange for their rights with respect to, and interests

in, the converting company as a mutual company, in accordance with the conversion proposal.

Demutualization Benefit shall also refer to demutualization compensation;

g) Eligibility Day shall be the thirtieth (30th) calendar day prior to day of the Special Meeting;

h) Eligible Voting Members refer to policyholders of insurance policies which shall have been in force for at least one (1) year as of the Eligibility Day and who are entitled to vote on the approval and adoption of the conversion proposal which include the following:

i. Persons insured under an individual policy of life insurance, or of health and accident insurance, or any combination of life, health and accident insurance, except where the policy or contract declares some other person to be the owner thereof,

ii. 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 thereof. In such case, the designated owner shall be considered as the eligible policyholder;

iii. Assignees of a policy, provided that the assignment is absolute on its face to an assignee other than the insurer and had been filed at the principal office of the insurer at least thirty (30) days prior to the date of the Special Meeting;

iv. Executives, officers, members and employees of any corporation or association who are holders of certificates of policies issued under or in connection with a master group policy; and,

v. Any persons authorized to vote in accordance with the converting company's Articles of Incorporation and/or By-Laws.

In any case, where a policy or contract names two (2) or more persons as joint insured, payees, owners or holders thereof, the said persons shall be considered collectively as one (1) eligible member for the purpose of these Rules.

Beneficiaries under unmatured policies shall not, as such, be deemed to be policyholders.

i) Eligible Members refer to those members of the converting company who are entitled to receive demutualization benefits pursuant to the conversion proposal;

j) Independent Actuary refers to an IC-accredited actuary who is not an employee, officer, or trustee of the converting company. It may also refer to an actuarial firm operating in the Philippines that which employs IC accredited actuaries. Certifications issued by an actuarial firm should be duly signed by the Head of said actuarial firm in the Philippines and the IC accredited actuary of the actuarial firm;

k) Special Meeting refers to any meeting of Eligible Members following the procedure laid down in Section 15 of these Rules; and,

l) Value refers to the estimated market value of the converting company computed following the procedure laid down in Section 7 (e) Rules.

Section 5. Conversion Methods. - The converting company may choose to demutualize through any of the industry-recognized modes of demutualization or any other appropriate modes of demutualization, such as, but not limited to:

- a) Full demutualization, where a mutual life insurance company completely converts to a stock company, and issuing its own stock, cash or policy enhancements to the Eligible Members, and, at its option, undergo an Initial Public Offering (IPO);
- b) Sponsored demutualization, where a person or entity purchases the shares of stock of the newly converted company, as part of the conversion process; or,
- c) Through a mutual holding company, where the membership rights are transferred to a mutual holding company which shall own a newly formed subsidiary stock life insurance company.

A converting company may also demutualize through a variation of the foregoing or through other appropriate modes, as may be approved by this Commission.

TITLE II. DEMUTUALIZATION PROCESS

Section 6. Board Resolution to Demutualize; Publication of Advisory to the Public. - A conversion proposal shall be adopted by a vote of a majority of the members of the Board of Trustees of the Converting Company. The Board of Trustees' resolution to demutualize shall include the authority of the Chairman of the Board, the Chief Executive Officer or the President, for such purpose, to sign all proper documents in behalf of the converting company necessary to implement said resolution. An advisory to the public shall then be published at least once a week for two consecutive weeks in a newspaper of general circulation in accordance with IC Circular Letter No. 2016-34 dated 21 June 2016. The advisory shall contain the following wordings:

NOTICE

TO ALL POLICYHOLDERS OF _____

NOTICE IS HEREBY GIVEN THAT THE BOARD OF TRUSTEES OF _____ HAS, BY A MAJORITY VOTE, RESOLVED TO CONVERT THE COMPANY FROM A MUTUAL LIFE INSURANCE COMPANY INTO A STOCK LIFE INSURANCE COMPANY. MEANWHILE, A COMMITTEE HAS BEEN CREATED TO DEVELOP A CONVERSION PROPOSAL IN ACCORDANCE WITH CIRCULAR LETTER NO. _____, DATED _____ OF THE INSURANCE COMMISSION WHICH SHALL BE SUBMITTED FOR THEIR APPROVAL AND SUBSEQUENT RATIFICATION OF ELIGIBLE POLICYHOLDERS AT A SPECIAL MEETING TO BE CALLED AND HELD FOR SUCH PARTICULAR PURPOSE TO BE ANNOUNCED AS SOON AS PRACTICABLE.

(SIGNED)

AUTHORIZED SIGNATORY
NAME OF COMPANY

Section 7. Documentary Requirements. - A Letter of Intent to Demutualize, duly signed by the President of the company, addressed to the Insurance Commissioner, together with the payment of a fee in the amount of Two Hundred Fifty Thousand Pesos (P250.000.00) plus One Percent (1%) thereof as Legal Research Fee, shall be accompanied by the following:

- a) A Secretary's Certificate certifying the resolution to demutualize duly approved by a majority of the converting company's Board of Trustees and the authorized signatories for such purpose;
- b) Conversion Proposal;
- c) Copies of existing Articles of Incorporation and By-Laws,
- d) Actuarial Certification. - A certification duly prepared by an IC-accredited Actuary of the Converting Company:
 - i. Stating that the eligibility for demutualization benefits and method to be used to apportion the value and/or benefits of the converting company's membership rights among Eligible Members are fair and equitable to those Eligible Members;
 - ii. Providing an explanation of how the assets of the converted company are expected to be adequate to:
 - a. Meet contractual obligations;
 - b. Meet the reasonable expectations of the policyholders of those policies in respect of future dividend and other non-guaranteed policy benefits;
 - c. Support any future participating policies; and,
 - iii. Stating that the financial strength and viability of the converted company and the security of policyholders will not be materially adversely affected by the conversion.
- e) Valuation Opinion. - The total Value for distribution to Eligible Members shall be determined using generally accepted valuation methods certified by a valuation expert. The valuation opinion rendered by said expert to be submitted shall take into account, among other considerations:
 - i. The industry's underlying economic and technical characteristics;
 - ii. Informed forecast/s of the converting company's market performance;
 - iii. Appropriate valuation model/s;
 - iv. Conversion of said forecast/s into fair and equitable valuation; and,
 - v. Risk factors for investment in the company after its conversion.
- f) Appropriate Substitute Opinion. - Where, in respect of a conversion, other benefits are to be provided in lieu of shares, an opinion from the valuation expert that those benefits are appropriate substitutes for the shares as of the day the value of the Eligible Members' membership