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QUEDANCOR GUIDELINES IN FACILITATING INSURANCE COVERAGE FOR SPECIAL WINDOW MODE ACCOUNTS

QUEDANCOR CIRCULAR NO. 482, S. 2011, February 22, 2011

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1. RATIONALE

To effectively manage the credit risks associated with the existing accounts under the special window mode, QUEDANCOR strengthens its policies and procedures relative to the current organization's direction and strategy.

2. OBJECTIVES

2.1 Strengthen the insurance component of existing accounts under the special window mode.

2.2 Simplify the procedures and responsibilities related to providing insurance coverage to existing QUEDANCOR borrowers.

3. LEGAL BASIS

3.1 Republic Act No. 7393 dated 13 April 1992

3.2 Republic Act No. 8435 or Agriculture and Fisheries and Modernization Act of 1997

4. SCOPE

This Circular shall cover the policies and procedures involved in facilitating insurance coverage to existing QUEDANCOR borrowers under special window mode.

5. DEFINITION OF TERMS

5.1 Comprehensive Insurance – a combination of several insurance coverages like loss or damage to automobile and/or other forms of chattel.

5.2 Crop Insurance – as a comprehensive coverage against crop loss caused by natural disaster (i.e., typhoon, flood, drought, earthquake, volcano eruption, etc.) as well as pest infestations and plant diseases.

5.3 Group Credit Life Insurance (GCLI) – Insurance issued to the creditor on the lives of his debtors to pay the

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amount of indebtedness in the event of death of the latter. Legitimately to reduce the problem of collection from a deceased estate.

5.4 Insurance – a contract in which one party, the insurer, agrees in consideration of the premium to pay the beneficiaries of the insured a certain sum upon the death of the insured or to indemnify him for loss to property caused by fire or marine risks.

5.5 Insurance Company (IC) – refers to all individuals, partnerships, associations or corporations, including government-owned or controlled corporations or entities, engaged as principals in the insurance business as duly authorized by the Insurance Commission.

5.6 Life Insurance – an insurance on human lives and insurance appertaining thereto or connected therewith.

5.7 No Evidence Limit (NEL) – an insurance coverage not requiring application and medical examination.

5.8 Non-life Insurance – an insurance on properties and insurance appertaining thereto or connected therewith.

5.9 Philippine Crop Insurance Corporation (PCIC) – is a government owned and controlled corporation created under and by virtue of Presidential Decree No. 1467, as amended by Act No. 8175 to provide crop insurance cover to palay, corn, livestock, high value crops and non-crop agricultural assets of both borrowing and self-financing farmers.

5.10 Premium – refers to the consideration paid to an insurance company or insurer for undertaking to indemnify the insured within a specified period. It is also the agreed price for assuming and carrying the risk.

5.11 Special Window Mode (SWM) – a mode of lending provided by QUEDANCOR directly to its clients where access to the credit market is not available or not convenient.

5.12 Quedan Operations Officer (QOO) – QUEDANCOR's field personnel duly authorized to implement its programs.

5.13 QUEDANCOR Field Office (QUEDANCOR FO) – refers to the business operation areas of QUEDANCOR in different regions of the country.

5.14 Unsecured Loan – for the purpose of securing GCLI, unsecured loan shall refer to agri-fishery loan without

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Real Estate Mortgage (REM) Chattel Mortgage (CM), Deed of Assignment of bonds/securities, Time Deposits and the like, as collateral.

6. STATEMENT OF POLICIES

6.1 Insurance Coverage

Nature of insurance and respective coverage shall be in accordance with the following:

Nature

Coverage

Issuer

a. Fire Insurance Any building structure or improvement erected on the real estate property mortgaged with QUEDANCOR.

IC

b. Comprehensive Insurance Chattel and other similar properties mortgaged with QUEDANCOR

IC

c. GCLI Borrowers with unsecured or partly unsecured loans under the QUEDANCOR credit and guarantee facilities, except AIM, and related programs. For partly secured loans, only the unsecured portion shall be subject to GLI coverage

IC

d. Crop Insurance Grains – covers rice and corn

PCIC

High Value Commercial crops – cover asparagus, banana, cassava, sugarcane, tomato, peanut, potato, garlic, onion, industrial trees and other crops or as determined by the PCIC and QUEDANCOR.

Availment of appropriate insurance coverage shall be required from all borrowers except for crop insurance which shall be optional or at the borrower’s discretion.

6.3 Application of Insurance Coverage

a. GCLI

For accounts under the Remedial Management System, Account Remediation Program, Loan Modification Program and other similar programs, the GCLI shall cover both the principal amount and the existing interest plus the new interest on the loan being remedied. However, accounts with paid GCLI and those already remediated

(i.e. rescheduled/restructured) under any of the above mentioned programs, shall not be covered by the herein cited provisions unless the account is again subjected to another remedial measure upon effectivity of this circular.

GCLI shall be secured by the borrower upon favorable evaluation of his/her loan application by QUEDANCOR approving authority and shall be subject to the following IC terms and conditions:

1. Borrowers whose amount of loan are below NEL shall be automatically covered by GCLI, and shall no longer be required to fill-out the GCLI Application Form or undergo medical examination.

2. Borrowers whose amount of loan are above NEL, shall be required to fill-out the GCLI Application Form.

Borrowers whose loan is above NEL up to P 1M with adverse information gathered by the IC may be required to secure GCLI depending on the decision of the concerned IC.

Medical examination administered by the IC's accredited hospitals/clinics shall be automatically required for borrowers whose amount of loan is above P 1M.

For loans above NEL, QUEDANCOR FO shall forward the duly filled out application form to CGD for transmittal to IC, for further evaluation and reference.

N.B. For loans with a term of less than one (1) year, the GCLI premium shall be computed equivalent to the actual terms of loan by the QUEDANCOR FO.

b. Other Insurance Coverages

Applicant-borrower shall secure the required insurance coverage from the QUEDANCOR FO and submit the following insurance requirements to QUEDANCOR FO – Loans Management Group (LMG) depending on the type of insurance:

Type of Insurance

Requirement

a. Fire Insurance Type, location and picture of property

b. Comprehensive Insurance Official Receipt, Certificate of Registration, stencil of chassis number, motor/engine number and recent pictures of vehicle

c. Crop-insurance PCIC Application Form and Farm Plan Budget

6.4 Premium Payment by the Borrower

The GCLI shall be renewed every anniversary date of release of the loan and shall be computed based on the outstanding principal balance of the loan and its corresponding interest for the covering year.

The QUEDANCOR FO – Loans Management Group (QOO-LMG) shall notify the borrowers on the renewal of

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their GCLI coverage a month before the anniversary date of release of loan or expiration date of the existing insurance coverage. The borrowers may either pay in cash or issue PDC for such payment.

The QUEDANCOR FO Cashier shall safekeep the PDCs and strictly monitor the due date of PDCs for deposit to the bank. A photocopy of the Official Receipt (OR) of the premium payment must be regularly forwarded to the CGD, for its reference.

In cases where the borrower's application for GCLI is denied by QUEDANCOR's accredited IC, QUEDANCOR may opt to accept the existing life insurance of the borrower subject to the following conditions:

- Insurance coverage must be inforce within the term of the loan;
- Issuance of post dated check/s (PDCs) for premium payments for the whole term of the loan;
- Execution of a Deed of Assignment of the existing insurance by the client-borrower;
- Submission of OR of premium payment; and
- Endorsement of the insurance policy by the IC which shall be validated by the concerned QUEDANCOR FO.

The client-borrower may assign in whole or in part, his/her existing insurance coverage equivalent to the amount of loan. In case the existing insurance coverage of the borrower is inadequate to cover the whole loan, the loan amount may be reduced equivalent to the value thereof.

6.5 Renewal of Insurance Coverage

GCLI renewal shall be based on the outstanding principal and interest.

Renewal of GCLI shall be governed by the following order of procedures to ensure effective monitoring and strict compliance:

- Upon release of loan, the QOO-Loans Management Group (QOO-LMG) shall provide the borrower a copy of the Amortization Schedule reflecting the schedule of payment of loan, as well as, the premium for the renewal of insurance.
- In case the PDCs for insurance is inadequate due to irregular payment and/or dishonored check, the Administrative and Finance Services Group (AFSG) shall inform the LMG which in turn shall notify the concerned borrower to enforce payment or enforce other appropriate actions consistent with the polices of this guideline.

N.B. Borrowers who received the Reminder Letter from QUEDANCOR should directly pay to the QUEDANCOR FO Cashier who shall then issue the corresponding OR to the borrower.

- In case of non-payment of GCLI premium by the borrower within the prescribed period, the AFSG shall immediately inform the TrD-FMCD to make an advance payment of insurance premium to the concerned IC and correspondingly the concerned LMG shall notify the borrower of his/her obligation. To monitor GCLI premium payment, the QUEDANCOR FO through the AFSG, shall submit to CGD-ACD the list of borrowers with their outstanding loan balances for renewal of GCLI/insurance purposes.

Any unpaid insurance premium shall be subject to 12% interest p.a. and shall be reflected in the Promissory Note (PN).

For rescheduled and restructured accounts, the borrower shall be required to secure GCLI or appropriate insurance starting from the expiry date of the existing coverage and renewed thereafter every anniversary date up to maturity of the loan.

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6.6 Remittance of Premium Payment

TrD-FMCD shall pay/remit the premium payments due to the ICs within thirty (30) calendar days after the end of the production month, together with the list of insured borrowers based on the remittance report submitted by the concerned QUEDANCOR FO to TrD-FMCD.

6.7 Effectivity of Insurance

For loans with a term of up to one year, the effectivity of the insurance coverage shall commence from the date of loan release up to maturity. If term of loan is beyond one year, the insurance coverage shall be renewed subject to payment of premium on or before anniversary date of release of the loan up to maturity of the loan.

The effectivity for renewal of insurance shall be one year from the anniversary date of release of the loan up to maturity.

6.8 Service Fees (SF)

QUEDANCOR shall charge an SF for every GCLI transaction/availment. The chargeable SF shall be based on the mutual agreement between QUEDANCOR and IC.

The SF collection shall be treated as corporate income of the collecting QUEDANCOR FO.

6.9 Obligations of Accredited ICs

- Issue fire insurance policies for residential houses, buildings, and other structures and facilities, and comprehensive insurance policies for motor vehicles and other similar properties offered as security for QUEDANCOR loans.

- Issue appropriate life insurance coverage to QUEDANCOR borrowers with premium payments as security for their loans in case of death.

- Immediately settle the legitimate claims of QUEDANCOR in case of death or default due to non-existence of the commodities deposited on the franchised bonded warehouse of the principal borrowers or in case of loss by fire, accident or other fortuitous events.

- Abide with the policies, guidelines, rules and regulations of this circular, other QUEDANCOR guidelines and memoranda issued for this purpose.

A Memorandum of Agreement shall be executed between the IC and QUEDANCOR.

6.10. Suspension /Revocation of Accreditation

In case of violation by an accredited insurance company of any pertinent QUEDANCOR guidelines, the Corporation may suspend or revoke the accreditation after an opportunity for hearing has been accorded. The fact of suspension or revocation of accreditation shall be circularized to clients and participating banks.

6.11 Cut-off Date of Computation

The cut-off date for the computation of outstanding balance for insurance claim involving the deceased borrower shall be the date of borrower’s death indicated in the Death Certificate duly received by QUEDANCOR. The same shall also serve as one of the bases, together with the Loan Application Form for loans above NEL and Remittance Report, for the offsetting of insurance claim from the insurance premium for remittance to accredited ICs.

6.12 Filing and Payment of Claims

Payment of claims on loans below NEL under the GCLI shall be made by the concerned IC directly to QUEDANCOR FO.

For claims covered by crop insurance, the claimant-borrower shall coordinate with the DA-Municipal Agricultural Officer/Provincial Agricultural Officer (MAO/PAO) who shall conduct an evaluation on the status of the farm project and issue a corresponding report. If the evaluation is meritorious, the claimant-borrower shall submit the report conducted by MAO/PAO Office to the QUEDANCOR QOO-LMG on the loss/damage of the insured crop. The QOO-LMG shall then inspect/ascertain the damage/loss and shall correspondingly accomplish a Notice of Loss (NL) form. The QOO-LMG shall send the NL to PCIC through the fastest means of communication. Upon receipt of communication by the PCIC, an actual ocular inspection shall be conducted by the PCIC-Adjusters to determine/ascertain the extent of damage or loss. PCIC shall then issue an Inspection Report to serve as basis for the payment of claims to be remitted to QUEDANCOR, which will serve as payment for the loan of the borrower. In case the amount is insufficient to cover the borrower's outstanding balance, the borrower shall pay the remaining balance. In the same manner, any excess on the claim paid or remitted by PCIC shall be refunded to the borrower by QUEDANCOR. This provision on the deficiency and excess of claim shall also apply to GCLI.

6.13 Requirements in Filing of Claims

The QOO-LMG shall facilitate the submission of the following documents to process the insurance claim of the deceased borrower.

a. GCLI
a. General Requirements

- Original GCLI Application Form for loans above NEL;

- Death Certificate (signed and sealed by Local Civil Registrar);

- Birth/Baptismal Certificate;

- Certificate of Claimant, if partial payments were made;

- Certificate of Attending Physician, if death is due to illness/Police Report, if death is due to accident;

- Insured's installment ledger/Statement of Account;

- QUEDANCOR Loan Application Form with specimen signatures; and

- Copy of Remittance report submitted to TrD-FMCD.

b. Additional Requirements (depending on the beneficiary)

- Spouse
- Marriage Contract

- Children 18 and above

- Birth Certificate (BC)

- Children below 18 with proceeds of less than or equal to P50,000.00 and guardian are parent/s

- BC; and
- Notarized Affidavit of Legal Guardianship and accomplished by guardian of minor

- Children below 18 with proceeds of more than P50,000.00 and guardian are parent/s

  - Copy of Petition for Approval of Bond from RTC (copy of Court Order and Judicial shall be submitted to the insurer)

- Children below 18 regardless of amount of insurance and guardian are not the parent/s

  - Order of court appropriating the person as guardian of minor; and
  - Letter of Guardianship issued by the court.

- Parent

  - None

- Brothers and/or sisters

  - BC

b. Comprehensive Insurance

- Insurance Policy and OR;
- Current driver's license and its OR;
- Vehicle's Certificate of Registration and its OR;
- Original Police Report and/or Driver's Affidavit of the Accident;
- Pictures of the damaged portion/s;
- Stencils of the vehicle's motor and chassis numbers; and
- Repair estimates from at least 2 Motor Shops

c. Crop Insurance

NL duly signed by the claimant-borrower
The concerned QUEDANCOR FO-LMG/Designated Officer shall be held liable and shall be subject to appropriate sanction for non-submission of the above-cited claim requirements within the specified period allowed by the IC.

6.14 Accounting Treatment for Insurance Premium

a. Payment in cash by borrowed and subsequent deposit to the bank:

Account Code

Account Name

Debit

Credit

102

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Cash with Collecting Officer

xxx

422/421

ROCA/HOCA

xxx

628-202

Misc. Inc. – Insurance Commission

xxx

111

Cash in bank

xxx

102

Cash with Collecting Officer

xxx

b. Deduction from proceeds of loan

Account Code

Account Name

Debit

Credit

121-01

A/R - Program

xxx

628

Program - SF

xxx

628-202

Misc. Inc. - Insurance Commission

xxx

8-810-390/399

ROCA/HOCA

xxx

112

Voucher Payable

xxx

Account Code

Account Name

Debit

Credit

102

Cash with Collecting Officer 16,347.00

A/R Program 15,000.00

Program –SF 375.00

Program – Interest 900.00

ROCA/HOCA 20.70

Misc. Inc. – Ins. Commission 51.30

Example:

Account Borrower IVO BORRO

Loan Amount P15,000.00

Term 6 months

Principal

P15,000.00

SF

375.00

Interest

900.00

Insurance (.80/1000/mo)

72.00

_____

TOTAL

P16,347.00

6.15 Sanctions

Remission of duties such as but not limited to the following acts or violations committed by a QUEDANCOR employee shall be dealt with in accordance with the existing Guidelines on Administrative Discipline and Procedure:

- Failure to submit Remittance Report within the prescribed period to the TrD;

- Failure to remit the insurance premium within the prescribed period to TrD/IC;

- Failure to secure new and effect the renewal of all insurance coverage of borrowers within the term of the loan;

- Failure to submit the required list of borrowers together with the remittance of the corresponding service fees; and

- Any other fraudulent acts or omissions proven committed by the concernedQUEDANCOR employee.

7. OPERATING PROCEDURES

a. Renewal of GCLI Coverage

QOO-LMG 1. Notifies borrower on the renewal of his/her GCLI coverage a month or 30 calendar days before the anniversary date of release of loan or expiration date of the existing insurance coverage.

Borrower 2. Pays in cash or issues PDC for the payment of the renewal of insurance.

3. Follows procedures nos. 10-15

In case the PDC for insurance is inadequate:

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AFSG 4. Notifies the concerned borrower through the QOO-LMG

Borrower 5. Acknowledges receipt of notice and pays directly to the QUEDANCOR FO Cashier

Cashier 6. Issues OR to the borrower and furnishes copy of the same to the concerned QOO-LMG.

In case of non-payment within the prescribed period:

AFSG 7. Informs TrD-FMCD to bridge payment of insurance of the non-compliant borrowers to the concerned IC.

8. Submits list of borrowers reflecting the outstanding loan balance for renewal

9. Notifies the non-compliant borrowers through the QOO-LMG of their obligation

QUEDANCOR FO 10. Deposits check to LBP upon its maturity

11. Remits premium to TrD-FMCD together with the list of borrowers with paid premium

TrD-FMCD 12. Remits premium to concerned IC

IC 13. Issues OR to QUEDANCOR

b. Filing and Collection of Insurance Claims

QOO-LMG 1. Validates report on the death of borrower and secures death certificate and police report in case of accident or loss.

2. Informs TrD-FMCD through the fastest means of communication in case of death of the borrower whose PN was purchased by an accredited bank

3. Prepares claim report to be endorsed by the RAVP

4. Forwards the report, death certificate and other necessary documents like police report in case of accident or loss to the CGD

CGD 5. Acknowledges receipt of submitted report and documentary requirements

6. Informs the IC of the claim and submits necessary documents

IC 7. Processes and evaluates claims

8. If found valid, releases check in favor of QUEDANCOR otherwise, informs QUEDANCOR FO in writing indicating reasons for non-approval through CGD

9. Informs AFSG to update borrower’s loan ledger card

10. Coordinates with cashier the entry on the receipt of fund.

8. SPECIAL PROVISIONS

8.1 There shall be periodic consultation among the officers of QUEDANCOR, the concerned ICs and clients/borrowers for the purpose of enhancing the effectiveness of the program.

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8.2 QUEDANCOR reserves the right to avail of the services of the IC which can offer the best package for its clients/borrowers.

9. EFFECTIVITY

This Circular shall take effect upon its approval.

Adopted: 22 February 2011

(SGD.) FEDERICO A. ESPIRITU, MNSA
President and CEO

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