

AUTOMATIC POLICY LOAN (APL) AND POLICY LAPSE

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RESOLVED, to APPROVE the proposed Policy and Procedural Guidelines on Automatic Policy Loan and Policy Lapse, a copy of which is hereto attached and made an integral part of this Resolution.

All PPGs, Board Resolutions and Office Orders previously issued that are inconsistent herewith shall be deemed amended or superseded.

Adopted: 12 Dec. 2007 (Board Meeting No. 22)

Policy and Procedural Guidelines No. 200-08

Automatic Policy Loan (APL) and Policy Lapse

1. BACKGROUND/RATIONALE

The Automatic Policy Loan (APL) is a feature of a GSIS life insurance policy that keeps the policy in force in case of non-payment of premiums by taking out a loan amount against the unrestricted portion of the policy's accumulated cash value (CV) or termination-value (TV).

The application of the APL facility ceases when the accumulated cash value or termination value of the policy becomes insufficient to cover both the APL and policy loan balances. The following life insurance programs of the GSIS include a provision on APL in their terms and conditions:

1. Enhanced Life Policy (ELP)
2. Life Endowment Policy (LEP)
3. Optional Additional and the Unlimited Optional Life Insurance (UOLI) policies

Another feature of a life insurance policy contract is the provision for Policy Lapse. A policy is considered lapsed on the date the total APL and policy loan balances exceed the cash value (for LEP) or termination value (for ELP).

To effectively implement and properly automate the APL and Lapse features of life insurance policies, the following policies and guidelines are hereby issued.

II. OBJECTIVES

- 1 To establish policies and guidelines that will serve as basis for uniformity and proper implementation of the APL and the policy lapse features of the life insurance programs of the GSIS under an automated platform; and
2. To effectively and efficiently administer, control and monitor the implementation of the APL and the lapse provisions of life insurance policies.

III. DEFINITION OF TERMS

1. Life Insurance Policy - A legal document issued by the GSIS to the insured policy- holder, which guarantees the payment of a specified benefit upon the death of the insured, or upon the occurrence of other circumstances

specified in the contract. For the purpose of this PPG, a life insurance policy includes the following: Life Endowment Policy (LEP), Enhanced Life Policy (ELP), Optional Additional and the unlimited Optional Life Insurance (UOLI).

2. Unrestricted Portion of the Cash Value (CV) or Termination Value (TV) - Remaining portion of the CV or TV after deducting the total indebtedness (outstanding balance of existing policy loan and APL).

3. Automatic Policy Loan (APL) -Amount borrowed against the unrestricted portion of the Cash Value/Termination Value of a life insurance policy to pay an overdue premium after the due date or grace period for paying the premium has expired. The term Automatic policy Loan shall also refer to and shall be synonymous with the Automatic Premium Loan mentioned in the policy contracts.

4. Automatic Premium Loan (API.) Provision -A provision in the life insurance policy which provides that after a policy has earned cash/termination value (1 year for LEP and optional, and upon the payment of monthly premium for ELP), any premium that remains unpaid after the due date or applicable grace period, is paid in whole or in part through an automatic loan against the unrestricted portion of the cash value (CV) or termination value (TV) of the policyholder's life insurance policy.

5. APL Balance - The outstanding balance (principal plus interest) of the APL as of any given time.

6. APL Program-The program to be developed under the Integrated Loans, Membership, Acquired Assets and Account Management System (ILMAAAMS) which would implement, monitor and generate reports relative to APL as stipulated in the life insurance' policies administered by the GSIS.

7. Cash Value (CV) - The accumulated value of LEP and the Optional policies at any point in time within the term of the policy, payable if the plan is surrendered before its maturity.

8. Termination Value (TV) - The accumulated value under ELP, which increases with the . regular payment of premiums.

9. Premium Due Date - This is the date when the premium payment on a policy is due.

9.1 For LEP and ELP, premiums for the current month are due on or before the end of the month but shall be remitted on or before the end of the grace period.

9.2 For Optional Additional and UOLI, premiums are due on or before the 1M day of the month to which such premiums shall apply and should be remitted on or before the end of the grace period.

10. Grace Period for premium payment - Prescribed number of days after the due date within which the premiums can be paid, either through agency remittance or direct payment, without incurring interest

10.1 For LEP and ELP policies, there shall be a grace period often (10) days; except for ELP policies issued to new entrants, for which there shall initially be a grace period of 90 days from the start of coverage, during which the policy will not elapse;

10.2 For Optional Additional and UOLI policies, the policyholder has thirty-one (31) days to pay the premiums due. The 3-day grace period starts from the 1st day the premiums became due and unpaid.

IV. POLICIES

A. Coverage

1. This PPG shall cover the following life insurance policies:

1.1 LEP

1.2 ELP

1.3 Optional Additional and UOLI

B. Automatic Policy Loan

Application of APL

1. The APL facility shall only be applied if the policy has:

1.1 an unpaid premium after the grace period; and

1.2 earned sufficient CV or TV to cover the unpaid premium/s, or a fraction thereof, and policy loan, including corresponding interests thereon

2. In the case of LEP or ELP, if a payment has been made, but the remaining amount, after deducting the monthly retirement premium, is not sufficient to cover the life insurance premium due for that month, APL in the amount of the unpaid premium, or a fraction thereof, shall be applied.

APL Interest Rate

3. The interest rates to be imposed on APL shall be as follows:

3.1 For LEP and ELP, 6% per annum compounded monthly (or 0.5% per month compounded monthly); and

3.2 For Optional Additional and UOLI, 8% per annum compounded annually (or 0.64% per month compounded monthly), or the rate indicated in the policy contract.

4. In the computation of interest on APL, a fraction of a month shall be considered as one full month.

5. interest rate charged on the APL of a policyholder shall be independent of the interest charged on the agency for delayed remittances.

APL Formula

The formula for computing the APL Balance as of a given date shall be as follows:

APL Balance (Current Month) =

APL Balance (Previous Month) +

Interest Due on APL

Balance (Previous Month) + Unpaid

Premium Due for the Current Month (full or Partial)

Payment of APL

7. APL may be paid/settled through any of the following:

7.1 Agency Remittance:

7.2 Deduction from the life insurance claim, provided policy is still in force.

8. APL shall not be included in the monthly billing to the agency.

C. Policy Lapse

1. A policy shall be considered lapsed when the combined outstanding balances of its APL and policy loan have exceeded the CV/TV.
2. In the event of policy lapse, the regular/optional policy loan, if any, and the APL are deemed paid by the accumulated CV/TV of the policy, and the corresponding loan ac counts are closed.
3. In the case of policy loan payments received after the policy loan has been liquidated as a result of policy lapse, the amount paid shall be applied as payment to other existing loan/s of the member or refunded subject to the rules on the processing of over payments.
4. In case of a lapsed ELP, the member provided he is still in active service shall be given a grace period of sixty (60) days within which to pay the premiums due either through agency remittance or direct payment
 - 4.1 The 60-day grace period shall start from the day the premiums became due and unpaid;
 - 4.2 If the member dies during the grace period, the death benefits shall be paid to his beneficiaries less unpaid premiums and all outstanding obligations which the member has with the GSIS; and
 - 4.3 ELP shall automatically be reinstated on the date the life insurance premiums are paid and remitted to the GSIS for the account of the active member concerned effective on the beginning of the due month covered by the payment.
5. in the case of lapsed LEP, the member concerned, provided he is still in the active service, shall be issued an ELP upon receipt of the first premium under the new coverage.
6. For active members whose LEP has elapsed and were issued new ELP, all unposted life insurance payments prior to policy lapse but posted after policy lapse shall be added to the termination value of the new policy.
7. For lapsed optional policies, the monthly billing of premium shall cease.

D. Additional Conditions for the Lapsing of LEP or ELP

1. A compulsory life insurance policy shall automatically be considered lapsed after twelve (12) consecutive months of non-payment of premiums even if there is still balance in the cash or termination value of the policy.
2. If there is still balance in its CV/TV after the automatic lapse of a compulsory life insurance policy, the following shall be done:
 - 2.1 If the member is still in active service, the amount shall be used as seed fund of a new ELP policy or added to the termination value of his reinstated ELP, as the case may be.
 - 2.2 If the member is already separated from the services:
 - 2.2.1 The balance shall be used to pay his other existing loan obligations with the GSIS; and
 - 2.2.2 Any excess shall be paid to the policyholder, subject to the filing of a request/application, or will become the seed fund of his new ELP, or added to the termination value of his reinstated ELP, in case of re-entry in government service.

E. Lapsing Process

1. The Accounts Management Unit (AMU) shall run on a regular basis a program that will generate the list of policies which have lapsed for the period.
2. The AMU shall prepare/generate the corresponding Notices of Lapse (Annex A[*]) for the covered run and ensure that these are sent immediately to the member concerned.

3. In the case of lapsed compulsory life insurance premium, the Membership Unit shall verify from the agency concerned if the members concerned are still in the active service and, if so, provide the needed advice and assistance in facilitating the reinstatement or conversion to ELP of their policy. F. Instructions

1 The ITSG shall develop the necessary application systems and provide enhancements in the existing programs that the Operations sector will specify to operational^ the APL and policy lapse guidelines as provided in this PPG. For this purpose, the Operations Sector and the Controller Group shall provide ITSG with all necessary requirements and support to comply with this directive.

2. Upon approval of this PPG, the operating units concerned shall, accordingly, develop the detailed procedures and revise the amended sections of their respective manual of operations and shall submit this to the Corporate Services Group for review and inclusion in the official manual and codification.

3. The Controller Group shall provide the necessary accounting entries and the accounting reports required to properly reflect the transactions in the books of accounts. All PPGs, Board Resolutions and Office Orders previously issued that are inconsistent herewith shall be deemed amended or superseded.

(SGD.) WINSTON F. GARCIA
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