



INSURANCE COMMISSION'S

Mission

We are committed to protect the interest and welfare of the insuring public and to develop and strengthen the insurance industry.

Vision

By 2020, as Regulator, we shall provide an opportunity for every Filipino to secure insurance protection and we shall observe practices at par with regional and global standards.

Values

Love of Country

Integrity

Fairness

Professionalism (Service & Excellence)

Solidarity (Unity and Social Responsibility)



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
Manila

September 13, 2007

The Honorable **MARGARITO TEVES**
Secretary of Finance
Department of Finance
Manila

Dear Sir:

We have the honor to submit the Annual Report on the Administration of the Insurance Code of 1978 and other related insurance matters for the year ended 31 December 2006.

Respectfully submitted,

EDUARDO T. MALINIS
Insurance Commissioner

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ADMINISTRATION OF THE INSURANCE CODE

Licensing and Market Structure

After a thorough review of the financial condition, corporate governance and market conduct of each and every insurance companies and other insurance related entities, a total of 130 insurers, (3 composite, 33 life, 93 non-life and 1 professional reinsurer); 22 Mutual Benefit Associations (18 of which can sell micro-insurance) and 6 Trusts for Charitable Uses were issued licenses under the Insurance Code as of December 31, 2006. The list of authorized insurance companies are shown in Appendix C.

Table 1 : Companies Authorized to Transact Insurance Business in the Philippines As of 31 December 2006					
Classification of Company	Direct Insurers			Professional	TOTAL
	Composite	Life	Non-Life	Reinsurers	
A. Domestic	2	25	83	1	111
B. Foreign					
Domestically Incorporated	1	7	5	-	13
Branch	-	1	5	-	6
Total	3	33	93	1	130

There were, however, three (3) life companies whose licenses were not renewed and these were:

1. COOP Life Assurance Society of the Philippines (CLASP)
2. National Life Insurance Company
3. Travellers Life Insurance Company

On the other hand, Sun Life of Canada Service Office and First Integrated Bonding were granted Certificates of Authority while Insular General Insurance Company merged with MAPFRE Insurance Corporation to form MAPFRE Insular Insurance Corporation. Likewise, the Universal Malayan Reinsurance Corporation merged with National Reinsurance Corporation and assumed the name Philippine National Reinsurance Corporation.

Table 2: Licenses Issued to Insurance Intermediaries and Other Technical Support Entities - 2006			
Sales/Technical Group	New	Renewal	Total
Ordinary Agents	16,865	24,200	41,065
Life	13,946	16,282	30,228
Non-Life	2,919	7,918	10,837
General Agents	35	307	342
Life	15	52	67
Non-Life	20	255	275
Variable Life Agents	1,490	2,012	3,502
Brokers			
Insurance	9	101	110
Reinsurance	1	31	32
Non-Life Underwriters	38	496	534
Resident Agents	15	48	63
Actuaries	4	38	42
Adjusters	1	58	59
	18,458	27,291	45,749

During the year, additional four (4) new Microinsurance MBAs were licensed and thus provided microinsurance coverage to about 3.2 million members from the lower income group. These Micro MBAs were as follows:

1. Kasagana Ka MBA (KASAKA)
2. Alalay sa Kaunlaran, Inc. (ASKI)
3. Tulay sa Pag-unlad, Inc. MBA, (TSPI)
4. Rural Bank of Talisayan MBA

Agents and other Technical Services

There were 41,065 registered ordinary agents in the country comprising of 30,228 life agents, 10,837 non-life agents. Licenses to solicit insurance business were also issued to 3,502 variable life agents, 342 General Agents, 100 insurance brokers and 30 reinsurance brokers. Certificates of registration were also granted to 2 public and 57 independent adjusters, 42 accredited actuaries, 63 resident agents and 534 non-life company underwriters.

Accreditations for External Auditors were also granted to 40 individual auditors and 37 firms with 79 partners.

Financial Surveillance

All covered institutions were subjected to either offsite or on-site examinations to determine compliance with rules and regulations including margin of solvency requirements.

While attention had been focused on the assessment of the supervised entities' risk profiles, the Commission continuously appraised and evaluated the corporate governance practices of the supervised entities to make certain they follow good standards of practices in all aspects of their operations. Further, the companies were also assessed as to their compliance with the "know-your-customer" (KYC) requirements in line with the Anti-Money Laundering Act.

Public Assistance/Claims Adjudication

To promote healthy market practices, the Commission makes available to the public and the policyholders opportunities to hear complaints and have them investigated. In 2006, the Commission handled 2,436 insurance cases (2,187 informal; 238 were under formal proceedings as stipulated under Section 416 and 11 administrative complaints). Of these, 1,876 were settled, 238 were adjudicated and 6 were resolved.

Conservation/Receivership/Liquidation

During the year, three (3) insurance companies and two (2) MBAs were placed under conservatorship while one insurance company was placed under liquidation.

These companies were:

<u>Under conservatorship</u>	<u>Date</u>
1. Philippine Association for Vocational Education	January 25, 2006
2. Cathay Insurance Company, Inc.	February 9, 2006
3. South Sea Surety & Insurance Co., Inc.	September 13, 2006
4. Philippine Public School Teachers' Association (PPSTA)	
5. Philippine Association of Vocational Educators (PAVE).	
<u>Under Liquidation:</u>	
1. Nicphil Insurance Company, Inc.	July 19, 2006

Security Deposits/Guaranty Fund /Security Fund

Insurance companies and intermediaries deposited securities with the Insurance Commissioner in accordance to Sections 191,203,281 and 392 of the Insurance Code for the benefit and security of policyholders.

Security deposits as of the year-end 2006 include bonds and other government securities amounting to ₱3,905.2 million, Time Deposits of ₱11.18 million and Y65,000. Other deposits not in accordance with the abovementioned sections include ₱25.59 million time deposits and ₱304,585 shares of stocks.

Guaranty Fund of Mutual Benefit Associations aggregated to ₱180.64 million.

Security Fund earnings totaled ₱374,760.46 for life sector and ₱307,662.41 for the non-life sector. These earnings shall be turned over to the insurance companies in proportion to their contributions.

Reinsurance Treaties

A total of 292 requests for facultative placements abroad were approved by the Commission and 1,190 reinsurance treaties were evaluated and found in order. Likewise, 401 certifications were issued to ensure the legitimacy of foreign exchange remittances abroad representing payment of reinsurance premiums, claims/losses, or profits/dividends.

Policy Forms

During the year, a total of 491 new insurance plans were evaluated and approved of which 427 were categorized as traditional products, 51 as variable life products while 12 were non-life insurance products.

Policies and Developments

In line with the mandate of protecting the insuring public and all other stakeholders, the Insurance Commission implemented measures to strengthen the insurance industry:

Code Amendments

A proposed draft bill entitled "Insurance Commission Act" aimed at amending the Insurance Code of 1978 was submitted to the Department of Finance for the Secretary's approval and was included in the list of priority bills of the Department. In the draft bill, the main considerations were enhancing the adjudicatory powers of the Commission and to increase the security fund of insurance companies.

Capital Adequacy

The Commission during the year under review issued Department Orders (Dos), Insurance Memorandum Circulars (IMCs) on capitalization to ensure that insurance companies have adequate financial buffers to pay its obligations and to increase the level of confidence of insurance companies to adapt to best international practices.

Department Order No. 19-2006 was issued laying down the minimum capitalization requirement for new life, non-life and reinsurance companies. The order required existing companies to have a minimum networth of ₱100 million as at the end of 2006 with the total increase on staggered bases completed by 2011 to reach ₱500 million.

Important circulars were also released like IMC No.1-2006 increasing capitalization requirements for existing insurance & reinsurance brokers and IMC No.2-2006 increasing the amount of guaranty fund for all existing mutual benefit associations.

Micro insurance

In order to help address poverty by giving the deprived sector preferential access to social protection, safety nets and access to financial services such as microfinance, all microinsurance MBAs were required to possess Guaranty Fund of ₱5 Million on or before December 31,2006 increasing every year by 5% of their gross premium collections until it reaches ₱12.5 Million. IMC No.9-2006 was issued defining Micro Insurance Regulation and Declaration of Policy Objectives aimed at recognizing the significance of making insurance accessible to the needy.

With this thrust, the Insurance Commission actively campaigned for the promotion of microinsurance program nationwide through road shows, meeting cooperative leaders.

Corporate Governance

In accordance with Corporate Governance Principles and Leading Practices, CL No. 35-2006 was issued requiring submission of the Minutes of Meetings, Biographical Data of the members of the Board of Directors/Trustees, and list of officers. Insurance companies were also required to provide the Commission with the list of inactive as well as active agents, officers and employees found guilty of or with pending complaints filed against them before the company or any administrative body or court on a monthly basis.

These lists were used by the Insurance Commission in the creation of a Negative List of Officers, Employees and Agents to promote professionalism among the workforce of the industry and protect the insuring public and other stakeholders.

Anti-Money Laundering Measures

To ensure full compliance to the requirements of the implementing rules and regulations of AMLA, all covered institutions were required to submit an Anti-Money Laundering Self-Rating Form (AML-SRF). They were also directed to amend their respective manuals with the issuance of revised operating guidelines in the formulation of control measures and procedures against money laundering and financing of terrorism.

Life Insurance

The rules and regulations formulated in 2006 were essentially aimed at upholding the orderly development of the sector and providing insurers with greater flexibility to develop their product range. The initiatives were the following:

- a) Circular Letter No.15-2006 lowered the new maximum policy loan interest rates from 12% per annum to 8% for non-participating and from 16% per annum to 10% per annum for participating policies for all dollar and peso policies as an added-value to policyholders.
- b) Circular Letter No.16-2006 amended the guidelines on sales illustrations for life insurance products where the necessary adjustment pertains to the interest assumptions to be used in illustrating the benefits under traditional & variable life plans to keep the insuring public from being presented with unrealized benefit projections.
- c) Insurance Memorandum Circular No. 6-2006 provided for the adoption of the Risk Based Capital Framework establishing the required amounts of capital to be maintained by life insurance companies in relation to their investments and insurance risks.
- d) Circular Letter No.33-2006 provided for a uniform chart of accounts for life and non-life insurers and MBAs enumerating the minimum accounts to be maintained in the company's books and the proper account name, definition and classification under the current accounting practice and Philippine Financial Reporting Standards (PFRS). This is enforceable on the next submission of annual statements in 2007.
- e) Circular Letter No.41-2006 provided for the New Rules on Contingency Funds, Future Funds, Benefit Enhancement Funds and Similar Riders prohibiting insurance companies and MBAs from issuing or renewing said riders. Insurance companies and MBAs can only issue Premium Deposit fund riders that limit the maximum amount that may be held at any time in the fund to the total future premiums due under the insurance policy.
- f) Circular Letter No.10-2006 required for the submission in soft copy of the accurate listings of active licensed agents of each life insurance companies.

Non-Life Insurance

To further enhance the regulation of the non-life insurance business including the surety business, the following circulars were issued:

- a) Insurance Memorandum Circular No.7-2006 "Adoption of Risk-Based Capital framework for the Philippine Non-Life Insurance Industry" established the required amounts of capital to be maintained in relation to their investments and insurance risks.
- b) Circular Letter No.23-2006 directed all non-life companies to settle their accounts with various courts in the Philippines, the Supreme Court and the Bureau of Customs.
- c) Circular Letter No.24-2006 required for the strict implementation of minimum rates for Earthquake and Fire and Shock and Typhoon and Flood.
- d) Circular Letter No.39-2006 reiterated for a full compliance of all non-life insurance companies to the guidelines on the minimum rates Earthquake/Fire/Shock and Typhoon/Flood.
- e) CTPL and other Compulsory insurance initiatives

Insurance Memorandum Circular No. 4-2006 revised the schedule of indemnities under CMVLI policies specifically increasing death benefit from ₱50,000.00 to ₱100,000.00.

Circular Letter No.9-2006 allowed insurance companies with valid certificates of authority or license to operate in the Philippines and in good standing is authorized to issue 3-year Compulsory Third Party Liability (CTPL) insurance policies.

Other Related Matters

Other circular issued during the year include:

- a) Insurance Memorandum Circular No.3-2006 providing for new schedule of fees and charges; and
- b) Circular Letter No. 18-2006 requiring all licensed general agents to submit their Audited Financial Statements starting June 2006 to facilitate the examination conducted by the Commission.

International and Regional Cooperation Updates

The Insurance Commissioner participated in the following international meetings/conferences for the enhancement of service to the insuring public:

The Ninth ASEAN Insurance Regulators Meeting

The Philippines attended the meeting in Bali, Indonesia. Among the topics discussed were updates on the ASEAN Unified Forms of Insurance Statistics, Harmonization of Insurance Laws and ASEAN Framework Agreement on Services.

IAIS Tri-Annual Meeting/Joint IAIS Training Seminar

During the tri-annual meeting of the International Association of Insurance Supervisors (IAIS) held in Ottawa, Canada, the Insurance Commissioners of member countries conferred on the issues on margin of solvency requirement, capitalization, reinsurance practices, and prevention of catastrophe losses, Avian Flu, micro insurance, the 28 core principles and the consumer protection measures. They likewise attended a training course concerning the Risk Based Capital Framework and Supervision and the processes and problems on crop insurance conducted by the Office of the Superintendent of Financial Institutions (OSFI).

15th Insurance Congress of Developing Countries (ICDC), Association of Insurers and Reinsurers of Developing Countries (AIRDC) ,Association of Insurance Supervisory Authorities of Developing Countries (AISADC)

The Commissioner attended the meetings held in Cairo, Egypt which were simultaneously held from February 26 to March 1, 2006. Among the topics discussed were updates on financial statistics, risk based capital framework. Increased in capitalization, impact of catastrophic losses to different parts of the world, Avian flu and other insurance practices in most developing countries.

29th Meeting of the Council of Members of Asian Reinsurance Corporation

The Philippines is a permanent member Asian Re established under the auspices of the United Nations Committee on Trade and Development (UNCTAD). As the Philippine representative to the Asian Re's Council of Members, the Insurance Commissioner was elected Vice-Chairman of the Council for one year. The council meeting covered the presentation and approval of the 4-year plans, programs and financial projections.

7-Day European Study Tour for six supervising Institutions and Judicial Agencies associated with Anti-Money Laundering Project

The study tour emphasized the need to strengthen the Philippine Money Laundering Law to expand coverage as well as to widen the types of predicate offences. The recent move to include money changers and remittance agents among the covered institutions of the Anti-Money Laundering Act has been a good move to ensure that they are not being used as channels for money laundering.

Performance of the Industry in 2006

Overview

The insurance industry continued to register positive growth in 2006, propped up by stronger expansion in the life insurance sector attributable to the rising demand for unit-linked products. Combined net premium income for life and non-life business increased by 14.87% to reach ₱ 73.56 billion. Higher sales of unit-linked products was a key factor in contributing to the overall growth rate registered in the life sector with 177.36% increment from the previous year as against the negative growth rate of 2.40% on transactions for traditional life insurance products.

For the non-life sector, growth was recorded in major business lines except marine where it registered a 28.60% decline in premiums as compared to last year's performance. The considerable rise on both the life and the non-life premiums resulted in a slight improvement in insurance penetration level, measured by the ratio of combined premiums to Gross Domestic Product (GDP) equal to 1.20% as against 2005's 1.16%.

Despite a relatively low underwriting results recorded by the life sector, operating results or net income after tax remained positive in the aggregate. Profitability was due to the favorable investment returns in the life sector. Both sectors, however, reflected a significant increase in administrative costs that affected whatever investment returns and underwriting income the insurance companies had.

Table 3: Philippine Economic Indicators, 2002-2006					
ECONOMIC AND INSURANCE DEVELOPMENT DATA	2002	2003	2004	2005	2006
GROSS NATIONAL PRODUCT					
At Current Prices (P M) *	4,138,240	4,631,479	5,248,064r	5,885,050r	6,570,310p
At Constant Prices (P M) *	1,094,702	1,171,431	1,252,331r	1,319,107r	1,399,527p
GROSS DOMESTIC PRODUCT					
At Current Prices (P M) *	3,883,230	4,316,402	4,871,555r	5,437,905r	6,032,624p
At Constant Prices (P M) *	1,023,101	1,085,072	1,154,295r	1,210,497r	1,276,435p
POPULATION ** (in million)	79.5	81.0	82.7	85.3	86.9
PER CAPITA GROSS NATIONAL PRODUCT (P)	52,053.3	57,178.8	63,459.1	68,992.4	75,607.7
LABOR FORCE (Average) (In million persons)	33.93	34.57	35.86	35.13	35.95
Employed ***	30.06	30.63	31.61	32.22	33.02
Unemployed ***	3.87	3.94	4.25	2.91	2.93
EXCHANGE RATE (per US\$) @	53.10	55.57	56.27	53.07	49.13
INFLATION RATE	4.86%	2.88%	6.00%	7.60%	6.20%
INSURANCE DEVELOPMENT (Private Companies Only)					
Per capita expenditure (P)	622.3	676.8	726.2	750.7	846.5
Life	456.6	496.4	533.3	550.8	637.3
Non-Life	165.7	180.4	192.9	199.9	209.2
Life sum insured as % of G D P	41.94%	47.61%	38.56%	27.33%	26.93%
G N P	39.36%	44.37%	35.79%	25.26%	24.73%
Premiums (Life & Non-Life)					
as % of G D P	1.25%	1.25%	1.21%	1.16%	1.20%
G N P	1.17%	1.16%	1.13%	1.07%	1.11%
Gross value added on insurance	35,567	37,541	45,699	47,449	53,741r
ESTIMATED LIFE INSURANCE COVERAGE	13.65%	18.30%	13.07%	12.96%	12.13%

The combined assets of both sectors expanded by 17.92% in 2006 to reach ₱ 412.27 billion. Placements of life insurers in long-term securities like bonds matched their long-term liabilities remaining strong from ₱ 157.97 billion to ₱ 168.90 billion. It is worthwhile noting that more than 90% of which were on government bonds. There was, however, a sharp increase of 72.04% from ₱9.12 billion to ₱15.69 billion on recoveries from reinsurance accounts.

Market penetration represented by the ratio of the number of life insurance policies in force to the total population, went down from 12.96% to 12.13%. Total sum insured

representing the maximum limit of liability cover the insured population for death, retirement, and the like rose from ₱ 1.486 trillion to ₱1.624 trillion, an increase of 9.29%. The modest performance of the life and non-life industry consequently increased the per capita spending on insurance.

Increased government spending, robust export growth and a record inflow of overseas remittances supporting domestic consumption all contributed to maintaining economic growth that have redound to positive outlook for future growth in the insurance industry while alternative distribution channels expanded market reach.

Life Insurance

At the end of 2006, an aggregate in-force sum insured of ₱ 1.625 trillion (₱ 25.0 billion on variable life products) were written by 37 authorized life insurers. This represented 3,436,590 policies (VUL-84,207) policies and 7,613,611 certificates with corresponding premium income of ₱ 55.38 billion (VUL-₱ 14.70 billion). Benefits paid for the year totaled ₱ 24.77 billion.

The traditional life insurance business accounted for 73.46% of the total premiums or ₱ 40.68 billion, representing a negative 2.40% decrease from that of 2005. One company reported premium income of more than ₱ 11 billion which took up 28.83%, in aggregate sales of traditional life insurance market while 3 companies whose premiums were in the region of ₱2 billion to ₱ 8 billion, covered 40.32% of the total figure.

Table 4: Life Insurance In-force/Premium Income, 2005-2006									
A. Traditional Insurance Products									
Types of Policies	Number of Policies			Insurance-in-force (In billion pesos)			Premium Income (In billion pesos)		
	2006	2005	% Change	2006	2005	% Change	2006	2005	% Change
	Ordinary	2,839,750	2,777,091	2.26	819.8	796.0	2.99	35.18	35.92
Group	511,760	517,802	(1.17)	779.8	678.8	14.88	5.50	5.76	(4.51)
Certificates	(7,613,611)	(8,272,965)	(7.97)						
Industrial	873	1,123	(22.26)	0.0	-	-	-	-	-
TOTAL	3,352,383	3,296,011	1.71	1,599.6	1,474.8	8.47	40.68	41.68	(2.40)
	(7,613,611)	(8,272,965)	(7.97)						
B. Variable Life Products									
VUL	84,207	49,116	71.44	25.0	11.5	117.39	14.70	5.30	177.36

Among the non-linked or traditional products, term insurance accounted for 67.25% while whole life and endowment insurance took up the remaining 32.75%. Unit-linked business represented 26.54% of the total premium income. The business grew by 177.36% from ₱ 5.30 billion registered the prior year. There were 10 insurance companies that sell variable life products or unit-linked products.

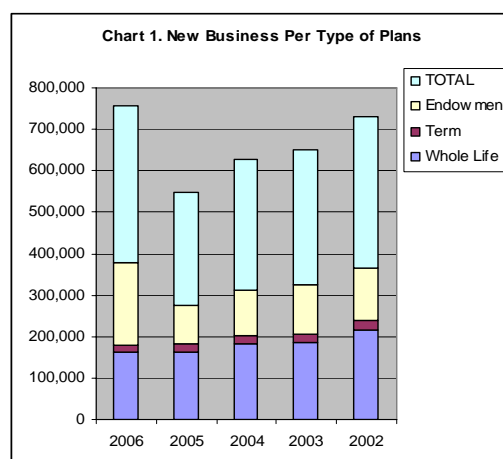


Table 5: Ordinary New Business, 2002-2006						
A. Traditional Insurance Products						
Year	Policies		Annual Premium		Sum Assured	
	Number	% Change	P billion	% Change	P billion	% Change
2006	374,222	38.28	7.57	(19.98)	83.83	(10.73)
2005	270,634	(12.39)	9.46	(9.65)	93.91	(4.07)
2004	308,908	(4.06)	10.47	11.86	97.89	(6.76)
2003	321,965	(11.04)	9.36	(7.60)	104.99	(18.44)
2002	361,944	(13.53)	10.13	53.25	128.73	(02.72)

Table 6: Group Insurance New Business, 2002-2006						
Year	Policies		Annual Premium		Sum Assured	
	Number (Certificates)	% Change	P billion	% Change	P billion	% Change
2006	3,790 (1,865,219)	(0.16)	1.40	(7.28)	136.99	6.00
2005	3,796 (1,629,670)	(12.17)	1.51	6.34	129.23	8.06
2004	4,322 (1,015,623)	34.06	1.42	(0.70)	119.59	160.15
2003	3,224 (956,540)	22.82	1.42	10.85	45.97	25.16
2002	2,625 (928,014)	(39.60)	1.29	4.88	36.73	(19.61)

** Data in parentheses stand for number of certificates

Among the traditional life products, new policies increased by 37.74% to 378,012 whereas premiums decreased by 18.23% to P8.97 billion. Sum assured went down by 1.04% from P 223.14 billion to P 220.82 in 2006.

Table 7: Distribution of New Business by Type of Policy, 2002-2006								
A. Traditional Insurance Products								
Year	Whole Life		Term		Endowment		TOTAL	
	Policies	Amount (PB)	Policies (Certificates)	Amount (PB)	Policies	Amount (PB)	Policies	Amount (PB)
2006	162,527	50.00	17,463 (1,864,570)	148.50	198,022 (649)	22.32	378,012 (1,865,219)	220.82
2005	162,636	61.67	19,830 (1,626,752)	143.14	91,964 (2,918)	18.32	274,430 (1,629,670)	223.13
2004	183,921	65.72	16,970 (1,013,110)	129.92	112,339 (2,513)	21.84	313,230 (1,015,623)	217.48
2003	186,194	69.02	20,239 (952,074)	57.04	118,756 (4,466)	24.90	325,189 (956,540)	150.96
2002	214,722	83.88	22,877 (920,820)	51.37	126,970 (7,194)	30.21	364,569 (928,014)	165.46

New Linked business in 2006 recorded an increase of 82.39% in number of policies, and it registered a growth rate of 187.68% in annual premiums and sum assured of 108.85%.

Table 8: Terminated Insurance Policies and Sum Insured (As of December 31, 2006)							
Types of Policies	Number of Policies						TOTAL
	Death	Maturity	Surrender	Lapsation	Expiry	Others	
Ordinary	10,589	55,167	82,854	257,332	22,500	30,194	458,636
Group	6,671	-	176	1,421	1,674	123	10,065
Certificates	(107,869)	(933)	(5,615)	(367,771)	(2,156,648)	(308,997)	(2,947,833)
Industrial	4	196	1	5	44	-	250
TOTAL	17,264	55,363	83,031	258,758	24,218	30,317	468,951
	(107,869)	(933)	(5,615)	(367,771)	(2,156,648)	(308,997)	(2,947,833)

* Data in parentheses stand for number of certificates

Terminated Sum Assured (in billion pesos)							
Types of Policies	Death	Maturity	Surrender	Lapsation	Expiry	Others	TOTAL
Ordinary	2.13	1.70	17.19	62.50	4.87	16.13	104.52
Group	3.70	0.01	0.70	41.57	77.99	32.34	156.31
Industrial	-	-	-	-	-	-	-
TOTAL	5.82	1.71	17.89	104.07	82.86	48.47	260.83

Voluntary termination rate is the ratio of the number of policies lapsed or surrendered during the year to the average number of policies in-force and is a measure of the persistency of business. The forfeiture or lapsed rate in 2006 was 6.22% while the surrender rate was 0.88%.

The per capita expenditure on life insurance was computed at ₱ 637.30 while the ratio of total individual policies and group certificates to population was 12.13%.

The life insurance sector had a total workforce of 34,965 composed of 898 officers, 5,920 employees and 28,147 agents.

The sector paid a total of ₱ 3.88 billion for taxes in 2006 consisting of ₱ 1.33 Billion Premium tax, ₱0.07 billion on VAT; ₱ 0.12 billion on Documentary Stamps tax; ₱ 2.30 billion on Withholding tax and the remaining ₱ 0.06 billion income tax and other taxes.

As in the previous year, life insurers registered a net underwriting loss of ₱5.07 billion. Despite this, however, the net profits for the year excluding capital gains was up by 13.81% due mainly to the growth in net interest income on their investment by 14.61% bringing the net profit to ₱8.57 billion.

Table 9: New Business Generated, 2002-2006

A. Traditional Insurance Products						
Year	Policies		Annual Premium		Sum Assured	
	Number	% Change	₱ billion	% Change	₱ billion	% Change
2006	378,012	37.74	8.97	(18.23)	220.82	(1.04)
2005	274,430	(12.39)	10.97	(7.74)	223.14	2.60
2004	313,230	(3.68)	11.89	10.30	217.48	44.06
2003	325,189	(10.80)	10.78	(5.60)	150.96	(8.76)
2002	364,569	(13.79)	11.42	45.66	165.46	(7.06)
B. Variable Life Products						
2006	40,488	82.39	13.78	187.68	14.87	108.85
2005	22,199	(4.02)	4.79	87.84	7.12	10.22
2004	23,130	70.49	2.55	32.81	6.46	(3.29)
2003	13,567	4,304.87	1.92	-	6.68	11,033.33
2002	308	-	-	-	0.06	-

Table 10: Summary of Operations, 2006 (in billion pesos)

PARTICULARS	LIFE		
	Domestic	Foreign	Total
Underwriting Income	12.22	19.58	31.80
Less: Underwriting Expenses	12.95	23.91	36.86
Underwriting Gain/Loss	-0.73	-4.33	-5.06
Add: Gross Investment Income	8.08	18.27	26.35
Other Income/Expenses	-1.05	0.95	-0.1
SUB – TOTAL	6.30	14.89	21.19
Less: Taxes other than Premium and Income Tax	0.57	2.27	2.84
Other General Expenses	4.01	5.73	9.74
Income Tax	0.01	0.03	0.04
Net Income / Loss for the year Excluding Capital Gains	1.71	6.86	8.57

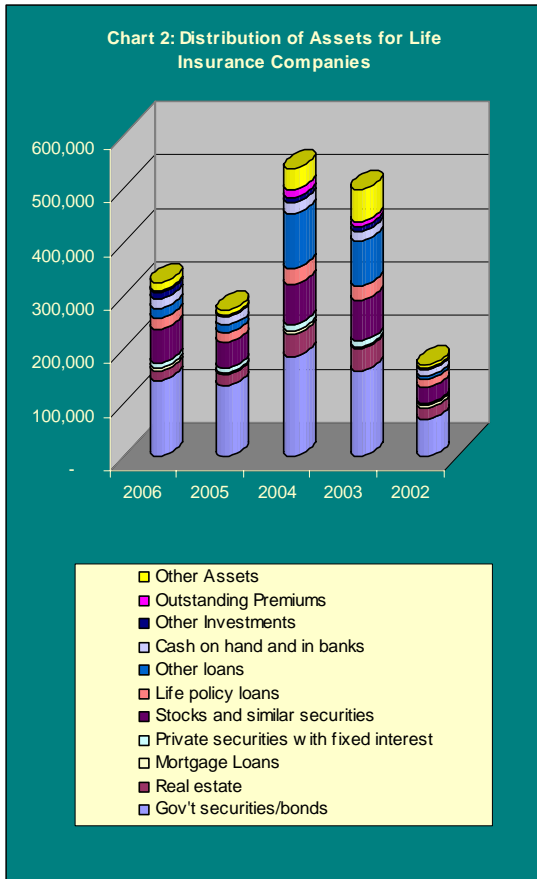


Table 11: Investments by Category, 2006 (₱ billions)

PARTICULARS	LIFE		
	Domestic	Foreign	Total
Bonds	34.00	116.20	150.20
Stocks	19.99	10.23	30.22
Real Estate	12.45	3.01	15.46
Purchase Money Mortgages	0.16	-	0.16
Mortgage Loans	3.51	0.70	4.21
Collateral Loans	2.62	6.25	8.87
Guaranteed Loans	3.53	4.40	7.93
Policy Loans	6.69	15.09	21.78
Other Loans	0.25	0.25	0.50
Short - Term Investments	0.13	-	0.13
Other Investments	0.47	0.53	1.00
Fixed Deposits	4.72	2.14	6.86
Asset Backed Securities	-	-	-
TOTAL	88.52	158.80	247.32

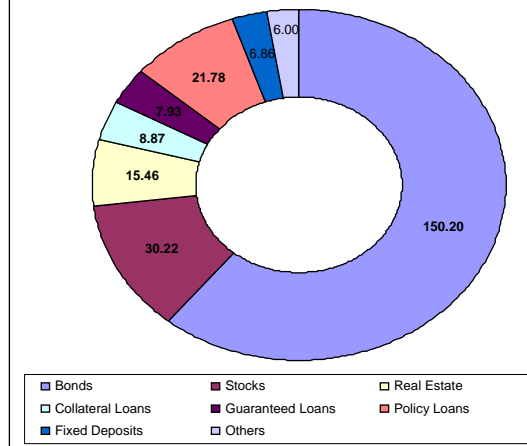
A total of ₱247.32 billion in invested assets was recorded for the life insurers some 64.21% of which belonged to foreign life insurers. Most of the invested assets went to bonds which stood at ₱150.20 billion and

stocks at ₱30.22 billion, an increase of 7.09% and 53.95%, respectively from that of the previous year. The interest earned on these investments amounted to ₱26.35 billion or an investment yield of 12.02%.

Table 12: Investments in Bonds and Government Securities, 2006 (₱ billions)

TYPES OF BONDS/SECURITIES	LIFE
Long - Term Government Bonds	141.01
<i>Treasury Notes</i>	117.60
<i>Land Bank Bonds</i>	0.08
<i>Pag- Ibig Bonds</i>	-
<i>Euro Bonds</i>	21.88
<i>Retail Bonds</i>	0.15
<i>Others</i>	1.30
Short-Term Government Securities	0.09
<i>Treasury Bills</i>	0.09
Total Government Securities	141.1
<i>Private Bonds</i>	6.38
<i>Foreign Bonds</i>	2.81
GRAND TOTAL	150.29

Chart 3: Investments at Cost of Life Insurance Companies, 2006



The aforesaid invested assets combined with cash, receivables, and other assets aggregated to ₱ 324.74 billion as against the previous year's ₱273.57 billion. On the other hand, 77.60% of the ₱248.53 billion total liabilities went to legal policy reserves or ₱192.87 billion with the next largest chunk going to dividends due to policyholders representing 11.83% or ₱29.40 billion.

Table 13: Consolidated Balance Sheet, 2006 (₹ billions)

PARTICULARS	LIFE		
	Domestic	Foreign	Total
ASSETS			
Bonds	33.63	114.55	148.18
Stocks	28.33	34.50	62.83
Real Estate Owned	17.06	1.92	18.98
Purchase Money Mortgages	0.15	-	0.15
Mortgage Loans	3.50	0.67	4.17
Collateral Loans	2.62	6.24	8.86
Guaranteed Loans	3.53	4.40	7.93
Policy Loans	6.69	15.18	21.87
Other Loans	0.23	0.24	0.47
Short – Term Investments	0.13	-	0.13
Security Fund	0.03	0.05	0.08
Other Investments	14.0	0.11	14.11
Cash on Hand & in Banks	7.44	9.80	17.24
Premiums Receivable/Premiums Due & Uncollected	0.68	1.61	2.29
Due From Ceding Companies	0.06	0.17	0.23
Prem./Loss Reserve Withheld By Ceding Companies	0.12	0.24	0.36
Accrued Interest & Other Investment Income	1.34	5.50	6.84
EDP Equipment	0.31	0.25	0.56
Other Assets	1.97	7.49	9.46
TOTAL ASSETS	<u>121.82</u>	<u>202.92</u>	<u>324.74</u>
LIABILITIES			
Legal Policy Reserves	68.54	124.33	192.87
Policy & Contract Claims	1.99	1.18	3.17
Dividends Payable to Stockholders	0.05	0.80	0.85
Policyholder's Dividends	5.92	23.48	29.40
Liability for Premium Deposit Funds	5.99	1.85	7.84
Premiums Due to Reinsurers	0.31	0.33	0.64
Prem./Loss Reserves Withheld For Reinsurers	0.03	0.19	0.22
Taxes/Licenses Payable	0.88	0.23	1.11
Commission & Other Charges Payable	0.64	0.71	1.35
Accounts/Notes Payable	0.79	1.08	1.87
Unearned Investment Income	0.26	0.02	0.28
Other Liabilities	4.84	4.09	8.93
TOTAL LIABILITIES	90.24	158.29	248.53
NETWORTH			
Paid-Up Capital/Statutory Deposits	4.22	4.83	9.05
Paid-In Capital	1.06	0.33	1.39
Deposit on Stock Subscription	-	0.45	0.45
Investment Fluctuation Reserve	12.03	18.81	30.84
Contributed Surplus	0.98	1.37	2.35
Contingency Surplus	1.04	2.20	3.24
Other Assigned Surplus	0.01	0.00	0.01
Unassigned Surplus	12.24	16.64	28.88
TOTAL NETWORTH	31.58	44.63	76.21
TOTAL LIABILITIES & NETWORTH/TRUSTEED SURPLUS	<u>121.82</u>	<u>202.92</u>	<u>324.74</u>

Non-Life Insurance

Under this heading is the business done by ninety-three (93) direct writing non-life insurance and the sole professional reinsurer in the country.

Total gross premiums of direct- writing insurers declined slightly by 1.94% to ₱ 27.81 billion in 2006 compared to the prior year, with the largest share of 33.12% represented by fire business and the next 32.15% by motor car business.

Table 14 : Gross Premiums Written of Private Non-Life Companies, 2005-2006								
Line of Business	Non-Life				Prof. Reinsurers			
	2006		2005		2006		2005	
	Amount (P B)	% to Total	Amount (P B)	% to Total	Amount (P B)	% to Total	Amount (P B)	% to Total
Fire	9.21	33.12	9.18	32.37	0.05	12.20	0.03	6.00
Marine	3.23	11.61	4.52	15.94	0.28	68.29	0.32	64.00
Motor Car	8.94	32.15	8.58	30.25	0.00	0.00	0.00	0.00
Casualty	5.37	19.31	5.23	18.44	0.06	14.63	0.11	22.00
Suretyship	1.06	3.81	0.85	3.00	-	-	-	-
Life for PR	-	-	-	-	0.02	4.88	0.04	8.00
TOTAL	27.81	100.00	28.36	100.00	0.41	100.00	0.50	100.00

After cessions of ₱ 10.58 billion to foreign reinsurers, net premiums written in the country stood at ₱ 17.23 billion, an 8.16% increment from last year's ₱ 15.93 billion. Said transactions resulted in a retention ratio of 64.42% where more than half of the net retained premiums were from the motor car business.

Table 15. Loss Ratios, 2005-2006 (Non-Life)						
LINE OF BUSINESS	2006			2005		
	Losses Incurred (P B)	Premiums Earned (P B)	Loss Ratio (%)*	Losses Incurred (P B)	Premiums Earned (P B)	Loss Ratio (%)*
1. Fire and Allied Perils	1.68	3.24	51.80	0.94	3.17	29.56
a. Fire	1.17	2.57	45.49	0.86	2.51	34.11
b. Earthquake/Fire/shock	0.03	0.39	7.59	0.01	0.37	2.38
c. Typhoon	0.42	0.11	373.66	0.04	0.11	31.18
d. Flood	0.04	0.06	68.47	0.01	0.07	22.51
e. Extended Coverage	0.02	0.11	21.60	0.02	0.11	20.52
2. Marine	0.48	1.46	32.98	0.48	1.45	32.92
a. Marine Cargo	0.27	1.01	27.05	0.31	1.02	30.91
b. Marine Hull	0.19	0.33	58.11	0.15	0.29	52.70
c. Aviation	0.02	0.12	13.39	0.02	0.14	8.40
3. Motor Car	3.95	80.39	47.07	3.88	7.53	51.54
a. CMVL-LTO	0.06	0.26	22.59	0.06	0.24	24.62
b. CMVL-Non-LTO	0.62	1.44	42.78	0.76	1.37	55.56
c. Other Than CMVL-LTO	0.16	0.09	174.04	0.09	0.08	108.45
d. Other Than CMVL-Non-LTO	3.11	6.60	47.14	2.97	5.84	50.87
4. Casualty	1.27	2.71	46.71	1.15	2.58	44.44
a. Health	0.10	0.42	22.72	0.08	0.32	26.56
a. Personal Accident	0.50	1.05	47.83	0.48	0.98	47.49
b. Engineering	0.11	0.29	38.57	0.09	0.31	27.57
c. Miscellaneous	0.56	0.95	58.54	0.50	0.97	52.84
d. Life, for Prof. Reinsurers	-	-	-	-	-	-
5. Suretyship	0.16	0.84	19.60	0.12	0.79	15.19
TOTAL	7.54	16.64	45.31	6.56	15.51	42.29

*Loss ratios based on exact figures

Overall loss ratio of the non-life insurers rose to 45.31% from 42.29% in 2005 due to the many typhoons that hit the country experienced. Losses incurred on fire and allied perils had a total increase of 78.72%, due mainly to typhoon and flood coverage.

The total premiums generated by the non-life insurers translated to a per capita expenditure on non-life insurance equal to ₱209.20. On the other hand, the sector provided employment to some 17,024 personnel, 1,395 of whom are officers, 6,151 non-officers and 9,478 agents. Funds contributed to the coffers of the government in the form of taxes amounted to ₱5.73 billion.

Table 16. Loss Ratios, 2005-2006 (Professional Reinsurers)						
LINE OF BUSINESS	2006			2005		
	Losses Incurred (P B)	Premiums Earned (P B)	Loss Ratio (%)*	Losses Incurred (P B)	Premiums Earned (P B)	Loss Ratio (%)*
1. Fire and Allied Perils	0.09	0.23	37.42	0.19	0.25	78.27
a. Fire	0.07	0.19	38.64	0.18	0.18	103.86
b. Earthquake/Fire/shock	0.01	0.02	38.11	0.00	0.06	4.53
c. Typhoon	0.01	0.01	90.77	0.00	0.01	14.82
d. Flood	0.00	0.01	(26.13)	0.01	0.00	130.62
e. Extended Coverage	-	-	-	0.00	-	-
2. Marine	0.26	0.29	92.64	0.29	0.30	94.35
a. Marine Cargo	0.14	0.14	102.41	0.07	0.16	41.94
b. Marine Hull	0.12	0.14	88.13	0.22	0.13	161.00
c. Aviation	0.00	0.01	6.43	0.00	0.00	71.73
3. Motor Car	0.04	0.07	55.14	0.05	0.08	57.13
a. CMVL-LTO	0.00	0.00	55.14	0.00	0.00	71.73
b. CMVL-Non-LTO	-	-	-	-	-	-
c. Other Than CMVL-LTO	0.00	0.00	55.14	0.01	0.02	59.61
d. Other Than CMVL-Non-LTO	0.04	0.07	55.14	0.04	0.06	56.02
4. Casualty	0.16	0.32	50.23	0.13	0.41	21.62
a. Health	-	-	-	-	-	-
a. Personal Accident	0.09	0.16	54.37	0.03	0.18	23.76
b. Engineering	-	-	-	0.00	0.00	1.64
c. Miscellaneous	-	-	-	0.00	0.02	6.63
d. Life, for Prof. Reinsurers	0.07	0.16	45.86	0.10	0.21	45.32
5. Suretyship	-	-	-	0.00	0.00	21.60
TOTAL	0.55	0.91	60.97	0.67	1.05	43.67

*Loss ratios based on exact figure

A year-end profit of ₱ 1.55 billion net after tax was registered, which was 22.11% from the ₱ 1.99 billion profit recorded in 2005. Again, this net income was propped up by the gross investment income of ₱ 3.14 billion as underwriting gain was barely enough to cover operating expenses.

Table 17. Summary of Operations, 2006, (in billion pesos)					
PARTICULARS	NON-LIFE			PROF. REINS	GRAND TOTAL
	Domestic	Foreign	Total	Domestic	
Underwriting Income					
Premium Income/ Earned	14.62	2.02	16.64	0.91	17.55
Commissions Earned	1.75	0.48	2.23	0.38	2.61
Other Underwriting Income	0.16	0.01	0.17	0.01	0.18
Less: Underwriting Expenses					
Losses/ Benefit Payments	6.77	0.77	7.54	0.55	8.09
Loss Adjustment Expenses	0.20	0.03	0.23	-	0.23
Commission Expenses	4.74	0.84	5.58	0.53	6.11
Premium Tax Incurred	0.00	-	-	-	-
Other Underwriting Expenses	0.68	0.07	0.75	0.03	0.78
Underwriting Gain/Loss	4.14	0.80	4.94	0.19	5.13
Add: Gross Investment Income	2.35	0.53	2.88	0.26	3.14
Other Income/Expenses	(0.22)	(0.01)	(0.23)	(0.03)	(0.26)
SUB – TOTAL	2.13	0.52	2.65	0.23	2.88
Less: Taxes other than Premium and Income Tax	0.31	0.08	0.39	0.04	0.43
Other General Expenses	4.93	0.77	5.70	0.15	5.85
Income Tax	0.14	0.08	0.22	(0.04)	0.18
Net Income / Loss for the year					
Excluding Capital Gains	0.89	0.39	1.28	0.27	1.55

The total assets of the non-life companies including the sole professional reinsurer increased to ₦ 87.53 billion or 15.11% in 2006 from ₦ 76.04 billion in 2005 while the networth improved by 5.90% from ₦ 42.05 billion in 2005 to ₦ 44.53 billion.

Table 18: Consolidated Balance Sheet, 2006 (₦ billions)

PARTICULARS	NON-LIFE			PROF. REINSURER
	Domestic	Foreign	Total	Domestic
ASSETS				
Bonds	11.49	3.46	14.95	2.90
Stocks	11.49	6.52	18.01	0.50
Real Estate Owned	4.32	0.15	4.47	0.13
Mortgage Loans	0.31	0.03	0.34	0.01
Collateral Loans	0.01	-	0.01	0.04
Guaranteed Loans	-	-	-	0.03
Other Loans	0.17	0.02	0.19	0.01
Short – Term Investments	1.66	0.25	1.91	-
Security Fund	0.01	0.00	0.01	-
Other Investments	0.39	0.09	0.48	0.01
Cash on Hand & in Banks	8.51	1.62	10.13	0.48
Premiums Receivable/Premiums Due & Uncollected	6.72	0.75	7.47	-
Due From Ceding Companies	3.13	0.12	3.25	2.08
Prem./Loss Reserve Withheld By Ceding Companies	0.40	0.01	0.41	0.08
Reins. Recoverable on Losses	12.70	1.82	14.52	0.91
Other Reins. Accts. Receivable	0.16	0.09	0.25	-
Commissions/Accounts Receivable	0.85	0.01	0.86	0.01
Salvage Recoverable	0.13	-	0.13	-
Accrued Interest & Other Investment Income	0.44	0.10	0.54	0.06
EDP Equipment	0.30	0.03	0.33	-
Other Assets	1.42	0.26	1.68	0.34
TOTAL ASSETS	64.61	15.33	79.94	7.59
LIABILITIES				
Reserve for Unearned Premiums	6.06	0.75	6.81	0.41
Losses & Claims Payable	14.37	2.18	16.55	1.27
Policyholders/Loss Adjustment Expenses	0.12	0.01	0.13	-
Catastrophe Loss Reserves	0.19	0.05	0.24	0.03
Premiums Due to Reinsurers	6.09	0.83	6.92	1.65
Prem./Loss Reserves Withheld For Reinsurers	0.89	0.45	1.34	0.06
Other Reins. Accounts Payable	0.13	-	0.13	-
Taxes/Licenses Payable	2.58	0.20	2.78	0.34
Accrued Expenses Payable	0.74	0.11	0.85	0.04
Commission & Other Charges Payable	0.96	0.01	0.97	-
Accounts/Notes Payable	1.48	0.03	1.51	-
Other Liabilities	0.90	0.06	0.96	-
TOTAL LIABILITIES	34.51	4.68	39.19	3.80
NETWORTH				
Paid-Up Capital/Statutory Deposits	9.18	1.68	10.86	1.59
Treasury Shares	(0.35)	-	(0.35)	(0.25)
Paid-In Capital	0.44	0.68	1.12	1.27
Contributed Surplus	0.83	0.38	1.21	-
Deposit on Stock Subscription	0.16	-	0.16	-
Investment Fluctuation Reserve	7.20	6.21	12.57	0.38
Contingency Surplus	1.61	-	1.61	-
Other Assigned Surplus	0.16	-	0.16	0.15
Unassigned Surplus/H.O. Accounts	10.87	1.70	12.57	0.65
TOTAL NETWORTH	30.10	10.65	40.75	3.79
TOTAL LIABILITIES & NETWORTH/				
TRUSTEED SURPLUS	64.61	15.33	79.94	7.59

In addition, investments of the sector grew by 3.91%. Notably, bonds constituted 46.93% or ₱18.70 billion out of the total investment portfolio of ₱39.85 billion in 2006.

Table 19: Investments by Category, 2006 (₱ billions)

PARTICULARS	NON-LIFE			PROF. REINS
	Domes tic	Foreign	Total	Domestic
Bonds	12.70	3.33	16.03	2.67
Stocks	5.39	0.73	6.12	0.36
Real Estate	3.98	0.18	4.16	0.19
Purchase Money	0.00	-	0.00	-
Mortgage Loans	0.30	0.03	0.33	0.01
Collateral Loans	0.02	-	0.02	0.04
Guaranteed Loans	-	-	-	0.03
Other Loans	0.1	0.03	0.20	0.01
Short – Term	1.6	0.24	1.87	-
Other Investments	0.2	0.09	0.34	0.01
Fixed Deposits	5.5	1.57	7.08	0.38
TOTAL	29.9	6.20	36.15	3.70

Table 20: Investment in Bonds & Gov't. Securities, 2006 (₱billions)

TYPES OF BONDS/SECURITIES	NON-LIFE (₱ B)	PR (₱ B)	GRAND TOTAL (₱ B)
Long – Term Government	13.17	2.67	15.84
<i>Treasury Notes</i>	8.26	1.70	9.96
<i>Land Bank Bonds</i>	0.05	0.02	0.07
<i>Pag- ibig Bonds</i>	0.02	-	0.02
<i>Euro Bonds</i>	0.33	0.83	1.16
<i>Retail Bonds</i>	0.57	-	0.57
<i>Others</i>	3.94	0.12	4.06
Short-Term Government Securities	1.83	-	1.83
<i>Treasury Bills</i>	1.83	-	1.83
Total Government Securities	15.00	2.67	17.67
	2.10	0.01	2.11
<i>Private Bonds</i>	1.69	0.01	1.70
<i>Foreign Bonds</i>	0.41	-	0.41
GRAND TOTAL	17.10	2.68	19.78

Insurance and Reinsurance Brokers

The significance of insurance brokers is once more demonstrated by the fact that this group was responsible for total premium production of ₱17.53 billion which is 63.03% of the gross premium production of the non-life sector which earned for them ₱420 million in total commissions.

Table 21: Brokers' Business Operations, 2006 (₱ M)

Line of Business	Insurance Brokers		Reinsurance Brokers	
	Premiums	Commissions	Premiums	Commissions
Life	3,014.3	359.1	-	-
Fire	3,574.9	426.0	588.0	46.2
Ocean Marine	329.6	73.2	37.9	5.9
Inland Marine	201.9	32.6	65.4	4.4
Marine Hull	543.9	47.4	130.9	3.3
Aviation	139.4	7.5	27.3	1.7
Fidelity & Surety	479.2	87.0	108.7	5.0
Motor Vehicle	1,836.7	399.5	11.3	0.6
Health	2,953.9	318.8	6.3	0.1
Accident	307.4	142.2	10.7	(0.9)
Engineering	1,429.1	(23.6)	3.4	0.7
Miscellaneous	1,705.3	325.5	233.1	34.4
TOTAL	16,515.6	2,195.2	1,223.0	101.4

Mutual Benefit Association (MBAs)

Twenty (20) MBAs submitted their Annual Statements for business year 2006. Three (3) of these were newly licensed namely, Alalay sa Kaunlaran MBA (ASKI, Rural Bank of Talisayan MBA, Inc. (RBT) and Tulay sa Pag-unlad, MBA (TSPI). However, Manila Public School Teachers Association, Inc., Mentors Guild Inc. and Postal Services MBA were not able to comply with the requirement.

Aggregate assets as of year-end amounted to ₱16.7 billion, a 12.08% increase over that of the previous year, with Other Loans comprising 29.94% of the amount. The sector has been dominated by five (5) bigger MBAs sharing 93.41% of the total reported assets.

Total Member's Equity was posted at ₱6 billion, a 7.14% increase over the reported equity in 2005.

Total cash receipts from different sources during the year amounted to ₱14.4 billion. However, corresponding disbursements exceeded the total cash receipts with the ₱14.7 billion expenses incurred during the year.

Total underwriting income as of the year-end amounted ₱2.5 billion, while underwriting expenses amounted ₱2.3 billion. Net income posted at the end of the year however, amounted to ₱0.7 billion in view of higher income from investments contributed mostly by Public Safety and Armed Forces of the Philippines (AFP) MBI.

Trust for Charitable Uses

Aggregate assets reported by five (5) Trusts for Charitable Uses during the year amounted to ₱434.5 million with ₱138 million or 32% placed in Short-term investments.

Of the five entities, Ramon Magsaysay Foundation shared the huge 86.40% of the total assets with or ₱128.5 million invested in bonds/stocks, ₱129 million in short-term investments and ₱129 million in real estate.

Total receipts during the year amounted to ₱20.4 million with total disbursements of ₱20.2 million.

Government Service Insurance System (GSIS)

Government-owned insurer, the GSIS reported an aggregated assets of ₱412.5 billion with a corresponding networth of ₱33.4 billion. Premium income/earned during the year was recorded at ₱42.7 billion with ₱40.6 billion contributed by government employees.

Net income of ₱0.03 billion and capital gains of ₱3.4 billion were reported at the end of the year with the total underwriting income of ₱7.4 billion and corresponding underwriting expenses of ₱32.1 billion. Total income from investments and other sources during the year amounted to ₱32.2 billion.