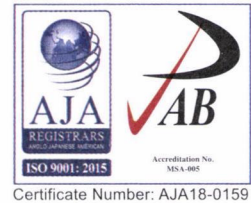




Republic of the Philippines  
Department of Finance  
**INSURANCE COMMISSION**  
1071 United Nations Avenue  
Manila



Legal Opinion (L.O.) No.:	2019 - 13
Date:	22 November 2019

**ATTY. EDGARDO L. PADILLA**  
Chairman  
National Power Corporation  
Employees Multi-Purpose Cooperative  
BIR Rd. cor. Quezon Avenue  
Diliman, Quezon City

**SUBJECT: Termination of Group Credit Life Insurance**

**Dear Atty. Padilla:**

This refers to your letter dated 23 July 2019 soliciting from the Insurance Commission a Legal Opinion with regard to the above subject matter.

The said letter mentions that Beneficial Life Company, Inc. (Benlife) issued a Notice of Termination against your Group Credit Life Insurance Policy under Policy Number GCL-00056<sup>1</sup>, effective on 31 July 2019, and that Benlife, in turn, merely offered to return or refund the unused premium for the unexpired portion of said Policy. Under the said Policy, the employees of National Power Corporation (NPC) are debtors of NPC-Employees Multi-Purpose Cooperative, the Policyholder.

As such, you are requesting this Commission for an opinion regarding the propriety of refunding the unused premium for the unexpired portion of the Policy in question.

Relative to the above, this Commission directed Benlife to explain or comment on the matter. In its letter dated 12 September 2019, Benlife argues, among others, that, to quote:

*"xxx... (i) The term of the Policy is yearly renewable. The Policy expressly stipulates the following:*

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<sup>1</sup> Exhibit 2 of the 22 July 2019 Letter from NPC-EMPC

*The insurance company reserves the right to adjust the premium on any anniversary date of the group contract depending upon the mortality experience. xxx*

*The Company reserves the right to establish a new premium rate at the beginning of any renewal year or whenever the terms of this Policy are changes, provided, however, that the Company will not fix new premium rates to be effective on any date which is less than 12 months after the Policy Effective Date. xxx"*

*(iii) In a letter dated June 28, 2019, BenLife validly terminated the Policy effective July 31, 2019. In essence, NPC- Employee Multi-Purpose Cooperative, through its letter to BenLife dated 22 July 2019, accepted the valid termination of the Policy. Accordingly, the existing insurance coverage of ail covered members of NPC-Employee Multi-Purpose Cooperative under the Policy automatically ceased on the effective date of the termination of the Policy.*

Upon careful evaluation, hereunder are this Commission's findings on the matter.

Foremost, it must be noted that a provision in an insurance policy which indicates that the same is renewable annually is valid pursuant to Section 51 of R.A. No 10607 otherwise known as the Amended Insurance Code provides that, to wit:

*"SECTION 51. A policy of insurance must specify:*

- (a) The parties between whom the contract is made;*
- (b) The amount to be insured except in the cases of open or running policies;*
- (c) The premium, or if the insurance is of a character where the exact premium is only determinable upon the termination of the contract, a statement of the basis and rates upon which the final premium is to be determined;*
- (d) The property or life insured;*
- (e) The interest of the insured in property insured, if he is not the absolute owner thereof;*
- (f) The risks insured against; and*
- (g) The period during which the insurance is to continue.**"*

The period the law speaks of under Section 51(g) above is satisfied when the Policy provisions of the Benlife Group Credit Life Insurance Policy issued to NPC include therein that the policy is renewable yearly. Hence, it follows that the policy shall run for one full year, subject to termination/non-renewal.

The contract is the law between the parties. As such, obligations arising from contracts have the force of law between the contracting parties and should be complied with in good faith, except in instances where the stipulations therein are contrary to law, morals, good customs, public order or public policy.<sup>2</sup> Finally, the

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<sup>2</sup> Morla v. Nisperos, G.R. No. 171146, December 7, 2011



contracting parties may establish such stipulations, clauses, terms and conditions as they may deem convenient, provided they are not contrary to law, morals, good customs, public order, or public policy.<sup>3</sup> The contract must bind both contracting parties; its validity or compliance cannot be left to the will of one of them.<sup>4</sup>

The foregoing considered, the stipulation that the Group Credit Life Insurance herein is renewable yearly, being a part of the Policy contract between Benlife and National Power Corporation Employees Multi-Purpose Cooperative, is the law between both parties.

In view thereof, this Commission finds that Benlife may validly terminate the Group Credit Life Policy after it has run the stipulated period of 1 year/12 months. Otherwise stated, Benlife has the option under the law not to renew said Policy subject to Section 66 of the Amended Insurance Code, to wit:

*“SECTION 66. In case of insurance other than life, unless the insurer at least forty-five (45) days in advance of the end of the policy period mails or delivers to the named insured at the address shown in the policy notice of its intention not to renew the policy or to condition its renewal upon reduction of limits or elimination of coverages, the named insured shall be entitled to renew the policy upon payment of the premium due on the effective date of the renewal. Any policy written for a term of less than one (1) year shall be considered as if written for a term of one (1) year. Any policy written for a term longer than one (1) year or any policy with no fixed expiration date shall be considered as if written for successive policy periods or terms of one (1) year.”*

It must be noted however that the above provision specifically exempts a Life Insurance, whether group or individual, from the requirement of notice of termination given *at least forty-five (45) days in advance* of the end of the policy period. Hence, the Notice of Termination given by Benlife thirty-three (33) days prior to the end of policy period against your Group Credit Life Insurance Policy is likewise valid.

Finally, as to the propriety of the refund of the unused premium, Section 234 of the Amended Insurance Code is relevant. The said section provides, thus:

*“No policy of group life insurance shall be issued and delivered in the Philippines unless it contains in substance the following provisions, or provisions which in the opinion of the Commissioner are more favorable to the persons insured, or at least as favorable to the persons insured and more favorable to the policyholders:*

**xxx**

*(h) A provision that if the insurance, or any portion of it, on a person covered under the policy ceases because of termination of*

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<sup>3</sup> Article 1306 of the Civil Code of the Philippines

<sup>4</sup> Article 1308 of the Civil Code of the Philippines

employment or of membership in the class or classes eligible for coverage under the policy, such person shall be entitled to have issued to him by the insurer, without evidence of insurability, an individual policy of life insurance without disability or other supplementary benefits, provided application for the individual policy and payment of the first premium to the insurer shall be made within thirty (30) days after such termination, and provided further that:

(1) The individual policy shall be on any one of the forms, except term insurance, then customarily issued by the insurer at the age and for an amount not in excess of the coverage under the group policy; and

(2) The premium on the individual policy shall be at the insurer's then customary rate applicable to the form and amount of the individual policy, to the class of risk to which such person then belongs, and to his age attained on the effective date of the individual policy.

**(i) A provision that if the group policy terminates or is amended so as to terminate the insurance of any class of insured persons, every person insured thereunder at the date of such termination whose insurance terminates and who has been so insured for five (5) years prior to such termination date shall be entitled to have issued to him by the insurer an individual policy of life insurance subject to the same limitations as set forth in paragraph (h), except that the group policy may provide that the amount of such individual policy shall not exceed the amount of the person's life insurance protection ceasing;**

(j) provision that if a person insured under the group policy dies during the thirty (30)-day period within which he would have been entitled to an individual policy issued to him in accordance with paragraphs (h) and (i) above and before such individual policy shall have become effective, the amount of life insurance which he would have been entitled to have issued to him as an individual policy



*shall be payable as a claim under the group policy whether or not application for the individual policy or the payment of the first premium has been made;"*

XXX

Emphasis must be made that the Insurance Code affords the insurer an opportunity to set the period by which the policy should be effective under Section 51 thereof. Through this provision, the interest of the insurer is rightfully protected by allowing the insurer with reasons equitable and/or lawful to set forth when the insurance policy shall terminate.

Similarly, the Insurance Code affords an equitable protection to the insured under a Group Life Insurance Policy under Section 234(i) which provides among others that the person **whose insurance terminates and who has been so insured for five (5) years prior to such termination date shall be entitled to an issuance to him by the insurer of an individual policy of life insurance, subject to the same limitations as set forth in Section 234(h), except that the group policy may provide that the amount of such individual policy shall not exceed the amount of the person's life insurance protection ceasing.**

However, the second paragraph of Section 234(k) of the Amended Insurance Code specifically provides an exception to the foregoing, to wit:

*"The provisions of paragraphs (f) to (j) shall not apply to policies issued to a creditor to insure his debtors...XXX*

As it applies to this case, it was earlier noted that under the Policy, the employees of National Power Corporation (NPC) are debtors of the Policyholder which is the NPC-Employees Multi-Purpose Cooperative. NPC-EMPC being a creditor in the Policy, it follows that the present case falls under the exception provided under Section 234(k). Hence, there is no need to issue individual life policies as laid down under Section 234(i).

In view of the foregoing, this Commission finds that the insurance contract between Benlife and NPC-EMPC was validly terminated, and that the return of the unused premium made by Benlife to the NPC-EMPC is justified.

Please be guided accordingly.

Thank you.

Very truly yours,

**DENNIS B. FUNA**  
Insurance Commissioner



CC:

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