



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



Legal Opinion (LO) No.:	2020 - 03
Date:	11 March 2020

AR. Z. JOAQUIN C. AMADOR

President
PhintecStar Construction, Inc.
Suite 21, 3J Heights Bldg.,
No. 35 Visayas Avenue,
Diliman, Quezon City

SUBJECT: **Request for the Formal Interpretation
of Deductible Amount of Validated
Claims for Damages against
Contractor's All Risk Insurance (CARI)**

Dear **Ar. Amador**:

This refers to your letter dated 20 January 2020 requesting for the Insurance Commission's formal interpretation of the participation clause of the insured in a Contractor's All Risk Insurance (CARI).

The pertinent facts are as follows:

"This has reference to [PhintecStar Construction, Inc.'s] claims for damages against our present CARI's we secured from The Premier Insurance & Surety Corporation, which were caused by Typhoon Ursula on our on-going works in our Yolanda Projects with the National Housing Authority (NHA), in the Municipalities of Hernani, MacArthur, Quinapondan and Balangiga, all located in Eastern Samar.

The aforementioned claim for damages were all denied by The Premier Insurance & Surety Corporation, in letters dated January 14, 2020, and we quote:

*'May we refer to **Section 1** of the [policy schedule of Contractor's All Risk Policy No. XXXXX, **under item A**, that the insured will bear the first 25% of sum*

insured as deductible for every loss or damage due to acts of nature such as typhoon.

*Please be informed that your share for deductible under our policy is **Php 24,961,679.75** (25% of the total contract amount) considering that your adjusted claim loss is only **Php 959,983.00**, the same falls within your deductible share (amount stated is for Balangiga)."*

Upon careful evaluation of the matters raised, hereunder are the Commission's findings.

First, CARI is a non-life insurance product and not a bond. As such, as opposed to a bond, the premium for CARI is non-tariffed and would depend on the assessment of risk made by the underwriter of the company.

Under present regulations, before a CARI policy is issued by an insurance company, the same undergoes underwriting process. The underwriter determines the risk that a potential client poses and evaluates the applicable premium rate. That being the case, an insurance company may use deductible in order to either mitigate the behavioral risk of moral hazards or to ensure financial stability on the part of the insurer.

As used herein, the insurance deductible is the amount that the insured will shoulder in an insurance claim before the insurance coverage starts paying the insured. It is the insured's portion of the financial responsibility and forms part of the insurance contract. A deductible provides a cushion between any given minimal loss and a true catastrophic loss that allows the insurance company to administer its policies. **Thus, if the compensable amount does not exceed the deductible, the insured bears all the loss. On the other hand, if the compensable amount exceeds the deductible, the excess will be borne by the insurer by paying the insured of such amount.**

The terms and conditions as well as the extent of liability of the insurer are stated in the CARI policy issued to the insured. In the present case, The Premier Insurance & Surety Corporation (Premier) issued CARI Policy No. CAR-12264 to the contractor PhintecStar Construction, Inc. with the deductible for loss/damage due to Act of Nature amounting to 25% of Sum Insured. **The sum insured amounts to Php 99,846,719.00. Based on the said policy, the amount of deductible amounts to Php 24,961,679.75. Considering that the amount of loss in this case is only Php 959,983.00 (which does not exceed the deductible), the contractor therefore bears the loss.**

Please note that the above opinion rendered by this Commission is based solely on the particular facts disclosed in the query and relevant solely to the particular

issues raised therein and shall not be used, in any manner, in the nature of a standing rule binding upon the Commission in other cases whether for similar or dissimilar circumstances.

Please be guided accordingly.

Very truly yours,

DENNIS B. FUNA
Insurance Commissioner



Copy furnished:

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