



# Policy Brief

SENATE ECONOMIC PLANNING OFFICE

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## What the pre-need industry needs

### Introduction

*The Philippine pre-need industry is going through a tough time. Aside from the global financial crisis, poor management and investment decisions, and unsound governance practices are seen to have caused its problems. The industry stands to suffer further unless reforms are put in place and the Pre-Need Code is enacted.*

The pre-need industry is caught in a lingering crisis of confidence. In 2004 and 2005, a number of pre-need companies started to face liquidity problems and failed to service the maturing plans of their clients. The involved firms were the market's biggest players --- College Assurance Plan Philippines (CAP), Inc., Professional Financial Plans, formerly The Professional Group, Platinum Plans Philippines, Inc. and Pacific Plans, Inc. Most these firms are now undergoing corporate rehabilitation.

Recently, three Legacy pre-need companies --- Legacy Consolidated Plans, Inc., Scholarship Plan Phil., Inc., and All Asia Plans Corporation --- unilaterally ceased operations even without prior approval from the Securities and Exchange Commission (SEC). The Legacy closure prompted the lawmakers to conduct congressional inquiries. It was found out that the closure has affected 52,990 plan holders, which has resulted in an estimated loss of around PHP5 billion in investments, according to SEC. Since the Legacy Group of Companies closed shop, three more have collapsed. One of these is Pryce Plans, Inc., which has started paying off plan holders with medicine and cooking gas because it no longer had funds to deliver the promised benefits. Lately, Prudentialife Plans, Inc. and Permanent Plans have followed suit after the former did not meet the capital build up requirements and the latter said it "no longer believes in the viability" of the pre-need industry given the tough times.

On top of these, the Philippine Federation of Pre-Need Plan Companies, Inc. (PFPPCI) has requested the government for a 'bailout', citing that troubles in the global economy have diminished the interest yields of their trust funds. In its position paper submitted to the SEC, the PFPPCI appealed for more regulatory leeway so that its members can address the deficiency between their trust fund and their reserves.

These developments have, again, brought to fore the need to examine the state of the pre-need industry. How did it reach the shaky situation it is presently in? Are the present rules not enough to monitor, supervise and regulate the movement of the pre-need firms? Can the proposed Pre-Need Code of 2008 save the ailing industry and guarantee the protection of the investing public?



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## The pre-need industry: an overview

Pre-need plans, according to the Securities Regulations Code of 2000, are contracts which provide for the performance of future services or payment of future monetary considerations at the time of actual need. They are payable either in cash or installment by plan holders at prices stated in the contract with or without interest or insurance coverage.

There are three types of pre-need plan offered by the pre-need companies in the Philippines: (a) an educational plan, which seeks to cover the college education of a beneficiary; (b) a pension plan, which offers a fixed value plan with guaranteed interest income upon maturity and; (c) a life plan, which covers memorial services at the time of the beneficiary's death. These plans particularly appeal to Filipino individuals and families mainly because they help prepare and mobilize savings early on, and thus, make it easier for them to cope with the spiraling cost of living.

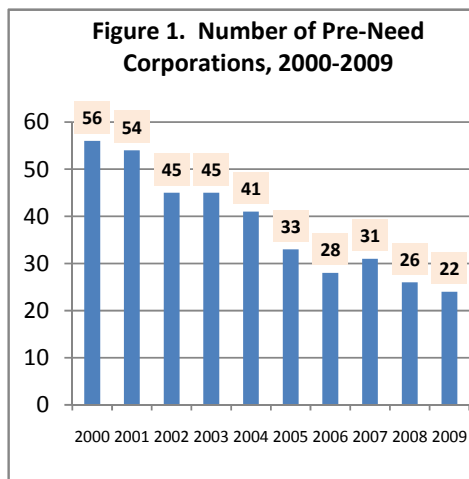
Since the establishment of the first pre-need firm in the Philippines in 1966<sup>1</sup>, pre-need has grown into a multi-billion peso industry and has contributed significantly to the growth of the financial sector. As of June 2008, the industry's trust funds<sup>2</sup> amount to PhP92.5 billion, making up about 7 to 8 percent of the total banking system's trust and other fiduciary accounts (TOFA). It also brings in much needed funds for the government, with more than two-thirds (67.4 percent) of its trust fund invested in government securities (Table 1).

In the last 25 years, a total of 92 pre-need firms have registered with the SEC but as of April 2009, only 22 are actively operating (Figure 1).

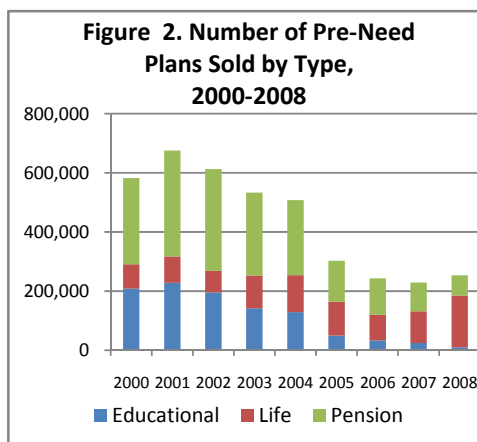
Industry sales have dwindled from PhP36.8 billion in 2000 to PhP15.3 billion in 2008, with the total number of plans sold reduced by more than half, from 582,003 to 253,378 (Figure 2).

Sale of pension plans, in particular, plummeted by 76.6 percent while life or memorial plans appear to have become more popular, with their share to the total number of plans sold increasing from 5.3 percent to 69.2 percent during the said period. Sale of educational plans exhibited the biggest drop, from 208,438 to 10,152 with an aggregate value of PhP17 billion in 2000 to PhP1.7 billion in 2008.

Despite the problems hounding the industry, latest data from the SEC showed that the number of plans sold increased to 40 percent, from 33,989 in the first two months of 2008 to 48,239 in the first two months of the 2009. Life plans grew by 72 percent, from 23,611 to 40,589. But the sale of educational and pension plans fell by 50 percent and 24 percent, respectively.



Source: SEC



Source: SEC

<sup>1</sup> The Pacific Plans, Inc. (formerly known as Pacific Memorial Plan, Inc.) is the country's first pre-need company. It introduced the offering of memorial plans while the College Assurance Plan pioneered in the traditional educational plan in 1980.

<sup>2</sup> A trust fund is a fund set up from plan holders' payments, which is separate and distinct from the paid-up capital established with a trustee under a trust agreement approved by the Commission, to guarantee the delivery of benefits.

### Box 1. The case of Mindaluz and a thousand others

Mindaluz Cabanta wanted to make sure that her child would not meet the same fate as hers. She was a sewer in a garment factory. She was convinced by a fellow sewer that the only way to ensure her child's future is by getting an educational plan. She bought a traditional educational plan, which she paid on installment basis for a couple of years. It was stipulated in her educational plan that the pre-need company would cover her child's college tuition fee. She never missed a payment for fear that her child's educational plan would lapse. But before her plan could lapse, it was the pre-need company that collapsed first.

This left Mindaluz wondering if she could still send her child to college. She has done her part; it is now up to the pre-need company to pay its dues. But as it turned out the road to settling one's educational plan is long and winding. Mindaluz could only hope that she would not only get hard-earned money back, but her peace of mind as well.

The names of characters and the types of plan vary, but they all have the same sob story --- that of feeling duped by a pre-need company that suddenly declared dissolution.

With the increasing number of pre-need firms that closed shop, the plan holders are now caught in a dilemma. The plan holders who have finished paying are now wondering whether their pre-need companies can still settle fully their claims once their plans mature. There are also plan holders whose plans are yet to mature but are torn between paying to keeping their part of the agreement, and not paying at all for fear that they may not get a return of their investment. But there is a catch if they do not pay; the plans will lapse. Whether the former is better than the latter or vice versa is yet to be answered by either the SEC or pre-need firms.

### Why the industry is on the brink of collapse

A number of factors have contributed to the deterioration of the pre-need industry.

The Education Act of 1992, which allowed for the deregulation of tuition and miscellaneous fees, is often cited as the primary reason the pre-need industry started to break down. Prior to the enactment of the said law, tuition fee increases were capped at 15 percent. This made it easier for actuaries to predict the pre-need firms' future liabilities even if some of them were offering the generously open-ended or *traditional* educational plans. This type of plans requires pre-need firms to pay the tuition charged by schools regardless of the amount, as opposed to the *fixed-value* educational plans whose benefits are well-defined.

With the deregulation policy, tuition fees shot up tremendously. A study conducted by the PFPPCI revealed that 10 years after the Education Act of 1992 was implemented, the cost of a four-year traditional educational plan increased 12 times from PhP20,000 to PhP240,000 (CPBD, 2008).

Whether the government considered the fate of the pre-need industry when it crafted the said policy is uncertain. What is clear is that several years after its implementation, the pre-need companies who were marketing the traditional educational plans saw themselves hard put in covering their maturing obligations. Some of them paid just a portion of the promised amount while the others were forced to close shop. Even those who were offering the fixed value plans were not spared. While not as adversely affected, they also suffered from the general loss of consumer confidence in the pre-need firms.

Poor management and unsound investment decisions made by some pre-need companies exacerbated the problem. In an attempt to cover their shortfalls, some ventured into high-return but equally high-risk investments. This was the case for CAP, which placed its trust fund in equities and highly speculative ventures like the development of Camp John Hay, Fil-Estate and the Metro Rail Transit (MRT). When the Asian financial crisis broke out and the equity and real estate markets buckled, CAP's trust funds further diminished. That these businesses turned out to be its affiliates did not help improve CAP's image to the public who were then already suspicious of possible collusion among pre-need companies and their affiliate corporations.

Some pre-need firms were also found to be engaging in creative accounting practices and sugarcoated their financial positions. When the SEC instituted the use of the actuarial reserve liability<sup>3</sup> (ARL) scheme as the method of valuation and called for the use of the Pre-Need Uniform Chart of Accounts (PNUCA) in 2002 as a standard

<sup>3</sup> Also called Pre-Need Reserve Liabilities, refers to the measure of liabilities of the pre-need company for its in-force plans as of valuation date.

1.	AMA Plans
2.	Ayala Plans
3.	Caritas Financial Plans
4.	City Plans
5.	Cocoplans
6.	Danvil Plans, (formerly Berkeley International Plans)
7.	Destiny Financial Plans
8.	Eternal Plans
9.	First Country Plans
10.	First Union Plans
11.	Grayline Plans
12.	Himlayang Pilipino Plans
13.	Loyola Plans Consolidated
14.	Manulife Financial Plans
15.	Mercantile Careplans
16.	Paz Memorial Services
17.	Philam Plans
18.	Provident Plans International Corporation
19.	St. Peter Life Plan
20.	Sun Life Financial Plans
21.	Transnational Plans
22.	Trusteeship Plans

Source: SEC

Year	Trust Fund Equity	Actuarial Reserve Liabilities	Trust Fund Variance
2000	33.17	36.89	-3.27 <sup>a/</sup>
2001	36.51	43.10	-6.60 <sup>a/</sup>
2002	55.67	59.85	-4.18 <sup>a/</sup>
2003	60.67	81.01	-20.33 <sup>a/</sup>
2004	60.25	59.58	0.67
2005	57.67	54.36	3.31
2006	67.86	57.91	9.94
2007	81.68	72.03	9.66 <sup>b/</sup>
as of June 2008	92.5	45.7	-46.8

Source: SEC

\*(a/) Previous year's deficiencies were already funded by the pre-need companies

\*(b/) Starting 2007, the Actuarial Reserve Liabilities/Pre-Need Reserve is computed based on the amended PNUCA

for reporting the pre-need firms' finances, it was found out that some companies do not have enough assets to pay off their future obligations. The PNUCA gave a more accurate picture of the financial condition of the firms as it shifted the accounting method from accrual to mark-to-market where profits and losses are recorded based on current market prices of the instruments in which the pre-need firms invested in.

In the case of the Legacy Group, policy holders were lured to "sell" their plans to an affiliate company called Legacy Card with the promise that the contract amount will be doubled given a certain period of time, depending on the "business plan" chosen by the plan holder. The said activity is similar to a pyramid scheme since it was paying claimants with money collected from new plan holders. When collections from new plans started to fall, the whole operation consequently caved in. Witnesses in the Senate hearings also alleged that Legacy's trust fund was diverted for the personal use of its president, Celso de los Angeles.

However, according to the PFPPCI, the case of the Legacy Group, should be treated as an isolated one and should not be likened to the rest of the pre-need companies who are now experiencing financial difficulties, not because of unsound and fraudulent business practices, but because of the economic slowdown.

A large part of the industry's trust fund, as managed by the firms' trustee banks, is invested in government securities and the stock market. Because of the global financial crisis, prices of these stocks plummeted. As a result, there was huge erosion in the trust fund value of the pre-need firms. In a position paper submitted by the PFPPCI to the SEC, it is reported that from an assumed annual interest yield of as high as 16 percent, trust fund earnings have gone down to 6 percent. As of June 30, 2008, the total trust fund of the pre-need industry amounts to P92.5 billion, a huge decline of PhP14.7 billion from its December 2007 level of PhP107.2 billion. From a surplus of PhP9.7 billion in 2007, trust fund deficiency reached PhP46.8 billion (Table 3).

The PFPPCI has requested regulatory leeway, which will enable pre-need companies to build up their capital and address their trust fund deficiencies. In particular, PFPPCI requested that they be allowed to defer the payment of plan holders' benefits by five years and be relieved from the mark-to-market computation of the trust fund variance. The Federation has also asked that they be allowed to fund their deficiency with non-cash assets such as real estate and unlisted shares of companies that have positive track record.

The SEC approved the request but shortened the time span to three years, from 2009 to 2012. Plan holders and lawmakers, however, were lukewarm to this move and contended that SEC decisions have always leaned in favor of the pre-need companies and not for the protection of the investing public. Moreover, SEC was assailed for being remiss in its duties to closely monitor the pre-need companies and act decisively on their problems. Its weakness as a regulator is considered to be an important factor why the pre-need industry is now in distress.

Table 4. Premium Contribution to the Trust Fund (in %)		
Payment Received	Life Plan	Other Plans
Collection of the 1st 20% of contract price	5	5
Collection of the 2nd 20% of contract price	10	10
Collection of the 3rd 20% of contract price	70	80
Collection of the 4th 20% of contract price	70	80
Collection of the 5th 20% of contract price	70	80

Table 5. Investment Portfolio Mix Allowed by SEC	
Investment instrument	Condition
<b>Fixed income</b>	
a. Short-term & long-term instruments (e.g., gov't securities)	Shall not be less than 10% of the trust fund amount.
b. Savings/time deposits & common trust fund instrument	
c. Commercial papers duly registered with the Commission	Shall not exceed 15% of the total trust fund for long-term commercial papers, exposure to each commercial paper issuer shall not exceed 10% of the allocated amount.
d. Direct loans to corporations	Shall not exceed 5% of the total trust fund, the amount to be granted to each corporate borrower shall not exceed 10% of the amount allocated.
<b>Equities (e.g., mutual funds, fixed income instruments and blue chip securities)</b>	Shall not exceed 25% of the total trust fund, investment in any particular issue shall not exceed 10% of the allocated amount.
<b>Real estate</b>	Shall not exceed 25% of the total trust fund amount

Source: SEC

## The powers of the SEC

Section 16 of RA 8799 or the Securities Regulation Code vested the SEC with regulatory powers over the pre-need companies. It authorized the SEC to prescribe rules and regulations governing the registration and sale of pre-need plans. Some of these important rules are the following:

- **A minimum paid-up capital of PHP100 million** as a buffer for trust fund performance fluctuation;
- **A minimum trust fund equity requirement of not less than 45 percent of the amount collected for life plans and 51 percent for pension and education plans.** For installment payments, the minimum limits of the deposit contribution to the trust fund shall be in accordance to a schedule (Table 4). Should the SEC discover a deficiency in the trust fund, it shall give notice to the pre-need company, and require it to make additional deposits within 30 days. The SEC may also demand for a higher deposit as determined by the actuary;
- **An investment portfolio mix for trust funds.** To ensure that risks to the trust fund are managed, the fund shall observe a certain investment mix (Table 5);
- **Liquidity reserve<sup>4</sup> requirement of not less than 10 percent of the net value of the trust fund assets per type of plan.** Loans, treasury notes or bills, Central Bank Certificates of Indebtedness, repurchase agreements, savings or time deposits with government-owned banks or commercial banks, and investments in fixed income instruments shall qualify as investments for the Liquidity Reserve Fund;
- **A trustee** who will exercise due diligence for the protection of plan holders, and who will have the exclusive management and control over the funds, including the required liquidity reserve fund. The trustee must be established independently with the trust department of a trust company, bank or investment house doing business in the Philippines;
- **Strict compliance with the Pre-Need Uniform Chart of Accounts (PNUCA)** for a more accurate accounting and reporting of financial condition of pre-need companies;
- **A limit to the payment of commissions up to 10 percent** of the contract price of the plans; and
- **Reportorial requirements** such as the monthly, quarterly and annual publication of financial condition and trust fund statements, among others.

Should the SEC find that a pre-need company has violated any of the said Pre-Need Rules, has engaged in fraudulent transactions or does not conduct its business in accordance with the law, or is insolvent, the SEC has the power to cancel the pre-need company's registration and permit to sell new plans.

<sup>4</sup> Refers to a portion of the trust fund set aside by the trustee to cover the benefits due to plan holders for the ensuing year.

## Box 2. The Capital Build-Up Plan

The Securities and Exchange Commission (SEC) has agreed to ease rules governing the pre-need industry, and has given pre-need companies a chance to address their trust fund deficiencies. The following are the requirements and conditions for the application of multi-year capital and trust fund build-up set by the SEC:

- A letter from the company acknowledging its trust fund deficiency or capital impairment based on the actuarial valuation report (AVR) and audited financial statements (AFS) for 2008 and agreeing that should economic condition improve, the company may require a shortened period of capital build up;
- AVR and AFS ending 2008;
- A five-year projected financial statement together with assumptions taken;
- A 15-year financial program addressing the old basket of plans that are commercially impracticable, taking into consideration the respective maturity values of the plans;
- A board resolution authorizing the filing of the application with supporting documents and taking full responsibility over the representations and commitments indicated in such;

Once approved, the respective trust fund deficiencies and capital impairment should be immediately addressed within 60 days. The deficiency between the trust fund and pre-need reserves within 2009 and 2013 must also be funded based on an agreed schedule (Table 6). The pre-need company that needs capital build up must address the impairment between 2009 and 2012 but will be subject to adjustments based on the annual audited financial statement (Table 7).

**Table 6. Multi-Year Trust Fund Build Up Plan**

Year	Amount to fund
2008	1/5 of trust fund deficiency
2009	1/4 of trust fund deficiency
2010	1/3 of trust fund deficiency
2011	1/2 of trust fund deficiency
2012	Entire trust fund deficiency

**Table 7. Multi-Year Capital Build Up Plan**

Year	Mandatory decrease in the capital impairment amount
2008	1/3 of capital impairment
2009	1/2 of capital impairment
2010	entire capital impairment amount

Source: SEC

As part of the capital build up plan, the SEC is allowing more investments in real estate, unlisted shares of stock as well as plan holder loans but with conditions. Pre-need firms must also comply with the following conditions:

- The pre-need companies must follow a strict schedule in filing AVR and AFS --- within 105 days after the close of calendar/fiscal year. The application and avilment of the multi-year capital and trust fund build up must be disclosed by the pre-need companies in their respective AFS.
- The reclassification of financial assets of pre-need companies shall be made in accordance to Philippine Accounting Standards 39.
- The pre-need companies cannot declare any form of dividends, stock options or warrants, or any form of profit sharing, performance bonus and other compensation schemes to its officers. In case of increase in allowances and benefits, it should not be more than five percent.

However, it appears that the SEC itself failed to follow its own rules. In the Senate hearings, it was revealed that Legacy was still able to secure permit to sell new plans from the Commission, ignoring SEC's advisory to recapitalize as early as 2006. This was also the case for CAP who was still able to get a permit to sell in 2001 even after the SEC found a PhP2.6-billion trust fund deficiency the year before. Moreover, even with the regular financial reports submitted to the Commission, the SEC is apparently still unable to keep track of companies that are already having financial difficulties.

SEC officials explained that lack of technical and financial capabilities, and not negligence, have been hindering them from carrying out their mandate effectively. At present, the SEC only has about 400 personnel and has no resident actuaries to do the counterchecking of the figures and financial projections pre-need companies submit to them. It was further argued that the non-passage of a Pre-Need Code has restrained the regulatory powers of the SEC.

### **The Pre-Need Code of 2008**

A Pre-Need Code for the Philippines' pre-need industry has been proposed as early as 1987. Since then, the measure has been re-filed and deliberated. To date, the Senate version of the Pre-Need Code (Senate Bill No. 2077) authored by Senators Mar Roxas, Edgardo Angara and Loren Legarda has already been passed on Third Reading but until now its counterpart legislation in the House of Representatives is still pending.

Senate Bill No. 2077 or the proposed Pre-Need Code of 2008 seeks to establish a regulatory framework to protect the plan holders and promote a healthy pre-need industry. SB 2077 is essentially a consolidation of the existing rules and regulations of the SEC. A number of new rules, however, are introduced:

- An affiliate trust entity should no longer be allowed to serve as trustee of a pre-need company.
- Liquidity reserve requirement will be increased from 10 percent to 15 percent.
- Investment of directors and officers should not be in excess of PhP5 million in any business venture where the pre-need company's trust fund has investment or financial interest.
- Required actuarial reports shall be duly certified by an independent SEC-accredited actuary. Under the present pre-need rules, it is only optional on the part of the SEC to refer the actuarial reports for verifications to an independent actuary.
- The maximum term for direct loans to corporations will increase to four years, instead of two as in the existing pre-need rules.
- The amount of trust fund invested in equities will be increased from 25 percent to 30 percent.
- The maximum term of loans to corporations, one of the investment options of trust fund, will be four years, instead of two years as in the existing Pre-Need Rules.

- The amount to be invested in equities shall not exceed 30 percent, instead of 25 percent as in the present Pre-Need Rules.
- There will be a range of administrative and criminal sanctions which are severe enough to discourage abuses and malpractices.
- Under the Code, if the SEC finds that a pre-need company is in a state of continuing liability or unwillingness to comply with the Code, a conservator will be appointed at any time before, or after the suspension or revocation of its license. The conservator, who may be another pre-need company or any competent person or corporation, will take charge of the assets, liabilities and management of company.
- Insolvency proceedings of pre-need companies shall be lodged with the Commission. No pre-need company shall be allowed to file directly to courts for rehabilitation or liquidation. Likewise, no restraining order or injunction shall be issued by the court unless the SEC acted in bad faith.
- The pre-need companies can declare dividends provided that: (a) 100 percent of the capital stock is intact; (b) there is a sufficient amount to pay all net losses reported or in case of settlement, to pay all the liabilities for expenses and taxes; and (c) the trust fund shall remain unimpaired.

### **Contentious Issues and Concerns**

In the final analysis, a number of contentious issues and concerns should be considered in the shaping of the final form of the pre-need code, to wit:

***Is it IC or SEC?*** Under the Senate version of the Pre-Need Code of 2008, pre-need companies will stay under the jurisdiction of the SEC. At one point in time, the Insurance Commission (IC) has been considered for the role of regulator of the pre-need industry but in the end the SEC has been deemed more appropriate for the role. Some of the reasons cited for choosing SEC as regulator are: a) SEC is already familiar with the way the pre-need industry works; and b) SEC already has the resources to manage the industry as under the SRC, SEC can keep a portion of its revenues. Moreover, IC does not have the resources and the proposed Code cannot provide the additional resources to IC. Besides, IC has to reorganize its structure and compensation.

Despite the issues on organizational structure and compensation, the House version of the Pre-Need Code bill is inclined to favor IC as regulator of the pre-need industry. Recent developments, which have cast doubts on the capability of the SEC to regulate the industry, led to proposals to transfer the regulatory powers of the SEC over pre-need to the IC as the latter seems to be more equipped in ensuring that the interests of plan holders are protected. The IC as regulator of the insurance industry is known to be stringent in its rules and conservative in assessing investment options.



**Premium contribution to trust fund.** SB 2077 has also kept the minimum trust fund equity requirement at 45 percent and 51 percent of the amount collected for life plans, and for pension and education plans, respectively. In light of the huge erosion in the trust fund value of pre-need firms, it is high time to review the said contributions. To date, the SEC is already studying the possibility of increasing the trust fund contribution, which should have been done a long time ago. The current schedule is based on the pre-need rules set in 2001. Eight years have passed since then and the same breakdown and share is being followed and will be adopted by the Pre-Need Code of 2008.

It is likely that over time the 45 percent to 51 percent allotment to trust fund from the premiums is no longer sufficient given the inflation, investment environment and external developments. However, even if the minimum deposit requirement into the trust fund is increased, it still would not guarantee the financial sustainability of the industry as it largely depends on a continuous flow of new plan buyers rather than on investment earnings to be able to pay the benefits of the early plan holders. Given this vicious cycle of rolling over the money of plan holders and the uncertain investment earnings due to the risky financial environment, a much bigger question need to be answered: Is the pre-need industry still viable?

**Independent trustee.** SB 2077's provision disallowing an affiliate trust entity to serve as trustee of a pre-need company is a welcome change as it will erase doubts of possible collusion between the trustee and the pre-need company. The imposition of criminal and administrative sanctions will also discourage violators of the Pre-need Code. While the present pre-need rules dictate that the trust fund must be established independently, some pre-need firms managed to contract affiliate trustees (as pre-need firm and trust company belong to the same holding company). Among them is the Pacific Plans whose trustee is RCBC. Pacific Plans and RCBC both belong to the Yuchengco Group of Companies. The same could be said about Bank of Commerce who has acted as trustee for CAP. Both companies have Sobrepeña affiliation. Others are Ayala Plans whose trustee is BPI; Philam Plans, Philam Savings; Cocolife, UCPB; and First Union, Union Bank.

**Pre-need insurance facility.** An option worthy of consideration is a pre-need insurance coverage facility that will assure pre-need plan holders that they can still get a guaranteed amount, if not the maturity value of their plans in case a pre-need company files dissolution. The burden of funding the liquidity facility can be shared by the government and the pre-need companies. This liquidity facility can also evolve into a lender of last resort to a pre-need company suffering from a financial distress. Its impact on government finances and the moral hazard it may pose should, however, be taken into consideration.

The House version of the Pre-Need Code has this similar scheme as it seeks to establish a benefit fund, which will guarantee payments in case a pre-need firm collapses. Under the bill, the pre-need company shall deposit in the benefit fund a portion of the installment payment it collected under a pre-need plan contract. The use of the funds shall be for the sole benefit of plan holders and shall be approved by the regulatory body based on the provisions of the proposed measure.

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