

## **[ GSIS RESOLUTION NO. 179, December 12, 2007 ]**

### **AUTOMATIC POLICY LOAN (APL) AND POLICY LAPSE**

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

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PPGs, Board Resolutions and Office Orders previously issued that are inconsistent herewith shall be deemed amended or superseded.

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

Policy and Procedural Guidelines No. 200-08

Automatic Policy Loan (APL) and Policy Lapse

#### **1. BACKGROUND/RATIONALE**

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

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

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

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

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

#### **II. OBJECTIVES**

- 1 To establish policies and guidelines that will serve as basis for uniformity and proper implementation of the APL and the policy lapse features of the life insurance

programs of the GSIS under an automated platform; and

2. To effectively and efficiently administer, control and monitor the implementation of the APL and the lapse provisions of life insurance policies.

### III. DEFINITION OF TERMS

1. Life Insurance Policy - A legal document issued by the GSIS to the insured policyholder, which guarantees the payment of a specified benefit upon the death of the insured, or upon the occurrence of other circumstances specified in the contract. For the purpose of this PPG, a life insurance policy includes the following: Life Endowment Policy (LEP), Enhanced Life Policy (ELP), Optional Additional and the unlimited Optional Life Insurance (UOLI).

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

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

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

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

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

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

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

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

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

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

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

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

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

#### IV. POLICIES

##### A. Coverage

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

1.1 LEP

1.2 ELP

1.3 Optional Additional and UOLI

##### B. Automatic Policy Loan

##### Application of APL

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

1.1 an unpaid premium after the grace period; and

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

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

##### APL Interest Rate

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

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