

Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City

SIXTEENTH CONGRESS
First Regular Session

HOUSE BILL NO. 2074



BY REPRESENTATIVES DE VENECIA and TEVES

EXPLANATORY NOTE

Agriculture is very much vulnerable to the unpredictability of nature. With agricultural production representing a major source of livelihood for many Filipinos, the impact of natural disasters and other agricultural risks cannot be taken lightly. The need to safeguard the livelihood and interests of local farmers, fisherfolks and even the upland dwellers should be properly addressed.

Data from the Department of Agriculture indicates the vulnerability of the sector to the unpredictability of nature. Droughts, floods and typhoons have been wreaking havoc on crops and fishery products causing untold miseries among farmers and fisherfolks. In 2009, monsoon rains and floods brought about by Typhoons Ondoy and Peping struck Central and Northern Luzon within a three-week period and destroyed properties and infrastructure worth billions of pesos. The crops sub-sector bore the major brunt of the immediate losses (P23.5 billion), followed by the fisheries sub-sector (P1.2 billion). In all, the storms adversely affected about 480,000 farmers in seven regions of Luzon. Damage to agriculture due to Typhoon Pablo which struck Eastern Mindanao last year, meanwhile, had reached P11.23 billion as of December 12, 2012 with the banana sub-sector and other high-value crops suffering the biggest losses at P7.4 billion.

Agricultural and fisheries products need insurance coverage to mitigate the debilitating effects of natural disasters and other agricultural risks. Agricultural insurance is a risk management tool designed to ease property and production losses especially to subsistence farmers and fisherfolks. It also serves as a financial mechanism to stabilize financial fluctuations suffered by the country's lending institutions.

At present, Presidential Decree (PD) 1467 as amended by PD 1733 and Republic Act (RA) 8175, otherwise known as the "Revised Charter of the Philippine Crop Insurance Corporation (PCIC) Act of 1995" cover both agricultural crop and non-

crop related insurance. Almost eighty five percent (85%) of the crop-related insurance coverage is focused on rice and corn, while the rest are on high-value crops and livestock. Non-crop insurance, on the other hand, covers agricultural machineries and personal life insurance of farmers and fisher folks.

Meanwhile, RA 8550 otherwise known as the "Fisheries Code of 1998" and Fisheries Administrative Order No. 215, series of 2001 (Insurance for Aquaculture Crops/Stocks) provide for limited insurance coverage of aquaculture under the insurance program of the PCIC but the program has yet to be fully operational. Agroforestry crops, forest plantations and non-crop agricultural assets such as farm machineries, transport facilities and other related infrastructures are not yet covered,

Extending a more comprehensive and sustainable agricultural insurance coverage to both the agriculture and the fisheries sectors ((i.e. coverage for losses caused not only by force majeure but also by plant and fish diseases) through legislation is therefore necessary to hasten effective implementation of the program. Policy setting via administrative fiat or through a corporate board's authorization is only ad hoc in nature and lacks the enforceability of a law.

The PCIC, however, remains in dire need of financial resources to fully implement its various programs. Under RA 8175, authorized capital stock of PCIC was increased from P750 million to P2 billion. The increased capitalization was supposed to allow PCIC to come up with internally generated funds through investment strategies and earnings to answer for the agency's overhead expenses. After 15 years, the increased capitalization has not yet been fully paid; hence its high operational expense is not being fully met by investment yields. As of December 2009 PCIC's paid up capital only stood at P1.23 billion. A more updated data gathered from the PCIC shows that as of October 6, 2011, the national government has yet to pay P259.05 million for the common stock it subscribed.

Premium subsidies to the agency, meanwhile, are either not delivered on time or not delivered completely. PCIC data reveals that total receivables from the national government in terms of premium subsidy arrearages have reached P493.59 million as of October 2011.

The shortfalls in capital contribution and subsidy on premium shares greatly diminished PCIC's investment capacity, making investment income barely enough to cover indemnity and administrative costs. But more importantly, this funding constraint has limited PCIC's reach to provide insurance cover to more than 5.4 million smallholder farmers and fisherfolks in the country. Only three (3%) percent of these have some form of risk protection from PCIC. While the government has provided P1 billion for insurance premium subsidy of Agrarian Reform Beneficiaries under the 2013 national budget, the directive is not institutional in nature.

To help sustain the agricultural insurance's funding requirement and fully expand insurance coverage, this proposed measure seeks to increase PCIC's authorized capitalization from P 2 billion to P 10 billion. The proposal also requires the Philippine Charity Sweepstakes Office (PCSO) to contribute a yearly amount of Ten Million Pesos (P10,000,000) from its charity fund to the crop insurance program. Said amount shall be directly remitted by the PCSO to the Corporation yearly until the unreleased premium subsidy is fully paid. Currently, RA 8175 requires the PCSO to earmark ten percent (10%) of its net earnings from lotto operations for PCIC's equity requirement. A 2008 Commission on Audit report, however, revealed that PCIC has no way of ascertaining the correctness of the percentage amount remitted by PCSO, as it just accept whatever amount is remitted by the latter.

To help safeguard PCIC's limited resources and hasten the release of claims to legitimate applicants, this bill also imposes heavier fines to spurious claimants. Erring agency personnel who help facilitate processing of false claims are likewise meted with stiffer penalties which include dismissal and forfeiture of separation benefits. With these additional provisions, it is hoped that the viability and sustainability of the program would be enhanced.

In view of the foregoing, approval of this proposed measure is earnestly sought.


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AN ACT
STRENGTHENING THE PHILIPPINE CROP INSURANCE
CORPORATION, AMENDING FOR THE PURPOSE PRESIDENTIAL
DECREE NO. 1467, AS AMENDED

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. Section 1 of Presidential Decree No. 1467, as amended, is hereby further amended to read as follows:

“SECTION 1. *Creation of the Philippine Crop Insurance Corporation.* – There is hereby created a body corporate to be known as the ‘Philippine Crop Insurance Corporation’ (PCIC and herein called the Corporation) which shall be attached to the Department of Agriculture. The Corporation shall insure qualified farmers and fisherfolk against losses arising from natural calamities, fortuitous events, plant and fish diseases and pest infestations.

The Corporation shall provide insurance coverage for palay and corn crops, high-value commercial crops, livestock, aquaculture and fishery products, agroforestry crops and forest plantations; on-crop agricultural assets such as but not limited to machineries equipment, transport facilities and other related infrastructures, and life and accident term insurance coverage for farmers and fisherfolk, as the Board of Directors of the Corporation may determine. Such crop insurance shall cover, in every case, the cost of production inputs, the value of the farmer’s and fisherfolk’s own labor and those of the members of his household, including the value of the labor of hired workers, and a portion of the expected yield as the Board of Directors in its discretion, decide to insure. Such insurance protection, however, shall exclude losses arising from avoidable risks emanating from or due to the negligence, malfeasance or fraud committed by the insured or any member of his immediate farm household or employee or the failure of the insured to follow proven farm practices.

“The Corporation shall also insure properties and facilities which are owned and/or used by government agencies involved in agri-fishery-forestry projects/activities and government-financed agri-

fishery-forestry projects. The Corporation shall also provide reinsurance coverage to agri-fishery-forestry properties and facilities underwritten by private and government insurance companies."

SEC. 2. Subsections 3.5. and 3.11. of Section 3 of Presidential Decree 1467, as amended, are hereby further amended to read as follows:

"SEC. 3. *Powers.* – The Corporation shall have the following powers:

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"3.5. To insure the produce of farmers and fisherfolk against loss, damage and destruction caused by natural calamities such as typhoons, floods, drought, earthquake, volcanic eruptions, rodents, vermins, disease, insects and other pests; and to carry on any business necessary, related to, and expedient for the above purpose;

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"3.11. To generate internal funds by floating bonds, expansion to other insurance lines and extending coverage to other areas of agriculture, livestock, aquaculture and fishery, agroforestry and forest plantations in order to address the insurance needs of the target sector and to do and perform acts and things and to exercise all the general powers conferred by law upon the Corporation as are incidental or conducive to the attainment of the objectives of the Corporation."

SEC. 3. Section 5 of Presidential Decree No. 1467, as amended, is hereby further amended to read as follows:

"SEC. 5. *Rate of Premium and its Sharing.* – The rate of premium, as well as the allocated sharing thereof by the farmers, the fisherfolk, the lending institutions, the Government of the Republic of the Philippines (herein called the Government) and other parties, shall be determined by the Board of Directors of the Corporation: *Provided*, That the share of the Government in the premium cost in the form of premium subsidy, shall be limited to subsistence farmers and fisherfolk: *Provided, however*, That each of these subsistence farmers is cultivating not more than seven (7) hectares of farmlands and each fisherfolk is cultivating not more than five (5) hectares of the fishpond, seaweed, oyster or mussel farm by themselves or with the help of the labor of the members of their households or hired labor, the premium rate and sharing to be determined by the Board of Directors subject to approval by the President of the Philippines: *Provided, further*, That the premium share of the subsistence farmer or fisherfolk shall be reasonably affordable by him: *Provided, furthermore*, That the Government shall share in the premium cost only in insurance coverage against unforeseen and unavoidable risks such as, but not limited to typhoons, droughts, outbreaks of pests and diseases: *Provided, finally*, That premium subsidy and/or

insurance benefits shall upon the accumulation of surplus funds, be increased to such amount as may be determined by the Board taking into consideration that the Corporation has been established not only for profit but mainly to help the insured in their direct hours of need."

SEC. 4. Subsections 6.3. and 6.5. of Section 6 of Presidential Decree No. 1467, as amended, are hereby further amended to read as follows:

"SEC. 6. Premium Subsidy.

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"6.3. Unappropriated and/or unreleased government premium subsidy for policies written for the period from May 1, 1981 up to December 31, 2012 computed on the basis of premium rates and sharing previously approved by the President as authorized by law shall be programmed for payment by the Government and the yearly sums shall be included in the budgetary appropriations for submission to Congress, starting the fiscal year following approval hereof, in addition to the premium subsidy requirement for the year involved.

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"6.5. The Philippine Charity Sweepstakes Office (PCSO) shall contribute a yearly amount of Ten Million Pesos (P10,000,000) from its charity fund to the Crop Insurance Program and said amount shall be directly remitted by the PCSO to the Corporation yearly until the unreleased premium subsidy is fully paid."

SEC. 5. Subsections 8.1., 8.3., 8.4.1., 8.4.3., and 8.5. of Section 8 of Presidential Decree No. 1467, as amended, are hereby further amended to read as follows:

SEC. 8. Capital Stock.

"8.1. The authorized capital stock of the Corporation is Ten Billion Pesos (P10,000,000,000) divided into Seventy-Five Million (75,000,000) common shares with a par value of One Hundred Pesos (P100) each share, which shall be fully subscribed by the Government and Twenty-Five Million (25,000,000) preferred shares with a par value of One Hundred Pesos (P100) per share which shall have the features as provided in Section 8.4 hereof and shall be issued in accordance with the provisions of Section 8.5 hereof.

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"8.3. The additional common capital stock of Six Billion Pesos (P6,000,000,000) shall be fully subscribed by the Government and the necessary funds shall be appropriated by Congress unless otherwise provided by existing laws: *Provided*, That Congress shall provide, on an annual basis, the needed capital, until the authorized capital stock is fully paid up.

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"8.4.1. Preferred as to dividends at a minimum of one and one-half percent (1.5%) or the prevailing 360-day treasury bill rate at the time of declaration of dividends, whichever is higher;

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"8.4.3. Non-Participating;

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"8.5At least Five Hundred Million Pesos (P500,000,000) of preferred shares shall be subscribed and paid for by the Land Bank of the Philippines. The balance of the preferred shares may be available for sale or to subscription by the general public."

SEC. 6. Section 8-A of Presidential Decree No. 1467, as amended, is hereby further amended to read as follows:

"Sec. 8-A. *Reserve Fund for Catastrophic Losses.* A State reserve fund for catastrophic losses in the amount of Five Hundred Million Pesos (P500,000,000) shall be created exclusively to answer for the proportion of all losses in excess of risk (pure) premiums under the Corporation's Crop Insurance Program for small farmers and fisherfolk. The fund may be increased subject to the approval of the President. The Fund shall be administered by a government financial institution to be designated by the Corporation's Board of Directors. Such sum as may be necessary for the purpose shall be funded by the National Government through the annual General Appropriations Act starting the calendar year immediately following the approval of this Act and every year thereafter until the full amount is completed. The mechanics of claims against the fund and to what extent the Fund shall be liable shall be determined jointly by the financial institution administering the Fund, subject to the approval by the President."

SEC. 7. Section 17-A of Presidential Decree No. 1467, as amended, is hereby further amended, to read as follows:

"Sec.17-A. *Penal Provisions.* — Any person who through malfeasance, misfeasance or nonfeasance allows a spurious claim to be paid, including the claimant himself, shall, upon final conviction, be punished by imprisonment of not less than three (3) years but not more than eight (8) years or a fine of not less than One Hundred Thousand Pesos (P100,000) but not more than Six Hundred Thousand Pesos (P600,000) or both at the discretion of the court."

The PCIC personnel who allowed the commission of the offense shall, in addition, be dismissed from office, and forfeit all privileges and benefits which may accrue to him."

SEC. 8.*Separability Clause.* – If any provision or part hereof is held unconstitutional or invalid, the other provisions not affected shall remain in full force and effect.

SEC. 9.*Repealing Clause.* – All laws, executive orders and other issuances or parts thereof inconsistent with this Act are hereby repealed or modified accordingly.

SEC. 10.*Effectivity.* – This Act shall take effect fifteen (15) days after its complete publication in at least two (2) newspapers of general circulation.

Approved,

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A handwritten signature, possibly of a representative, is written below the 'O' mark.