

## Prepayment of Premium as a Condition to the Validity of an Insurance Contract

*Jose B. Quimson*

*50 ATENEO L.J. 26 (2005)*

*SUBJECT(S): COMMERCIAL LAW; CREDIT TRANSACTION*

*KEYWORD(S): INSURANCE; CREDIT AGREEMENT*

This Article tackles the issue of whether an agreement granting a credit term within which to pay the premium is valid, notwithstanding the express prohibition in Section 77 of the Insurance Code of 1978. This Article answers this question by analyzing the decision of the Court in *UCPB General Insurance Co., Inc. v. Masagana Telemart, Inc.* and its legal basis on which the Court issued its controversial decision.

The Article first explores the factual antecedents of the case. Next, the Article discusses the legal history of Section 77 of the Insurance Code of 1978. The Article proceeds to analyze the legislative intent on the omission of credit agreements in Section 77 and discuss other legal grounds on which the Court could have based its decision.

Since the UCPB case pronounced that credit agreements are still valid notwithstanding the historical background of Section 77, the non-life insurance industry, the Author presents several options. The first is to accept the UCPB ruling on credit agreements as jurisprudence and continue entering into credit agreements with clients. Second, those in the legal profession can adhere to the original industry position that credit agreements are not allowed under Section 77 and hope that the Supreme Court overturns itself in a later case. The third option is to lobby with Congress to amend Section 77 to express in clear terms that credit agreements are not allowed and will invalidate any insurance policy which contains it. The fourth option is to work for an amendment which would require the premium of the initial non-life policy to be paid, with all the subsequent renewals carrying a 30-day credit agreement.

According to the Author, this option is the most fair and reasonable to both the insured and insurer in the fact of the current practices in the non-life insurance industry.