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Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 357
Series of 2002

Section 20 of Republic Act No. 8791, otherwise known as the General Banking Law (GBL) of 2000, allows a bank, subject to prior approval of the Monetary Board, to use any or all of its branches as outlets for the presentation and/or sales of the financial products of its allied undertaking or of its investment house units. To implement said section of the GBL, the Monetary Board, in its Resolution No. 1511 dated October 17, 2002, approved the following rules and regulations amending the Manual of Regulations for Banks by adding a Section and Subsection, as follows:

"Sec. 1631 Financial Products of Allied Undertakings or Investment House Units of Banks. The following guidelines shall govern the use of the head office and/or any or all branches of universal banks and commercial banks as outlets for the presentation and sale of financial products of their allied undertakings (subsidiaries and affiliates as defined hereafter) or of their investment house units. In case of sale of insurance products of insurance company affiliates, said affiliates must be accredited or pre-cleared by the Insurance Commission to ensure that only stable and reputable insurance companies can sell their products through banks.

a. Financial products covered by this Section are the following:

- (1) Credit cards;
- (2) Insurance products limited to:
 - a) Life insurance products
 1. Term insurance (including mortgage redemption insurance)
 2. Whole life insurance
 3. Endowment
 4. Health and accident policies
 5. Variable life insurance contracts
 6. Life annuities



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b) Non-life insurance

1. Fire insurance
2. Marine cargo policies
3. Homeowners' policies
4. Directors / officers liability insurance

(3) Such other products as may be authorized by the Monetary Board.

- b. For purposes of this Section, a subsidiary means a corporation more than fifty percent (50%) of the voting stock of which is directly or indirectly owned, controlled or held with power to vote by a bank while an affiliate means a corporation at least five percent (5%) but not exceeding fifty percent (50%) of the voting stock of which is directly or indirectly owned, controlled or held with the power to vote by a bank. A domestic subsidiary or affiliate is any subsidiary or affiliate domiciled in the Philippines and incorporated under the laws of the Philippines, while a foreign subsidiary or affiliate is a subsidiary or affiliate incorporated and organized under the laws of the foreign country.

"Subsec. 1631.1 **Statement of principles.** The use of a bank's head office and/or any or all of its branches in the presentation and sale of financial products of allied undertakings or investment house units could give the banking public the impression that these products are covered by the deposit insurance system or guaranteed by the parent bank. To enable the public to understand fully the attendant risks involved in these transactions, a clear and explicit distinction between financial products offered by a bank and those of its allied undertakings or investment house units must be made in the presentation and sale of these products, whether through written or verbal communications.

"Subsec. 1631.2 **Prior Monetary Board approval.** The presentation and sale of financial products shall be made by the bank in its head office and/or any or all of its branches only upon prior approval of the Monetary Board.

The bank's proposal on said presentation and sale shall provide information on the location of the office where financial products will be sold. Where possible, the office shall not be located in the main lobby of the bank's head office and/or its branches and should be clearly distinguishable by the public as a separate entity from the parent bank.

The proposal shall likewise cover particulars on: a) personnel who will be involved in the marketing of the financial products; and b) promotional matters including safeguards that would ensure that the public will be able to differentiate readily the bank products from the non-bank products. The public should also be able to distinguish personnel marketing non-bank products from regular bank personnel. In case of sale of insurance products, the staff selling insurance policies must be duly licensed by the Insurance Commission.

"Subsec. 1631.3 **Minimum documentary requirements.** The following documents shall be submitted as basis for the evaluation of a bank intending to sell financial products of its allied undertakings/affiliates or its investment house units:

- a. Latest information on the allied undertaking/affiliate or investment house unit:
 - (1) Annual report;
 - (2) List of directors and senior officers; and
 - (3) Income and expense statement for the last three (3) years.
- b. Copy of the approval of the Board of Directors of both the parent bank and allied undertakings or investment house units on the presentation and sale of financial products;
- c. Justification of the presentation and sale of financial products;
- d. Detailed information on the financial products to be offered, including promotional materials which will be used;
- e. Outline of the content of the training materials for bank's staff and officers who will be involved in the handling of the sale of financial products;
- f. Sample contracts; and
- g. Such other information that may be required by the BSP.

"Subsec. 1631.4 **Financial ratios and other related requirements.** A bank intending to use its head office and any/or all its branches as outlets for the presentation and sale of financial products of its allied undertakings/affiliates or investment house units must comply with the following requirements to ensure that only financially viable institutions and complying with BSP rules and regulations are allowed to undertake cross-selling activities:

- a) The bank during the last ninety (90) days immediately preceding the date of application has complied with the following:
 - 1) Ceilings on credit accommodations to directors, officers, stockholders and/or related interests;
 - 2) Liquidity floor on government deposits;
 - 3) Minimum capitalization as defined under Subsection X106 of the Manual of Regulation for Banks;
 - 4) Risk-based capital adequacy ratio under Circular No. 280 dated 29 March 2001 or as may be required by the Monetary Board in the future;
 - 5) Single borrower's limit;
 - 6) Investment in bank premises and other fixed assets;
 - 7) Open foreign exchange position; and
 - 8) Foreign exchange asset cover on FCDU/EFCDU foreign currency liabilities
- b) It does not have float items outstanding for more than sixty (60) calendar days in the "Due from/To Head Office/Branches/Offices" accounts and the "Due from Bangko Sentral" account exceeding one percent (1%) of the total resources as of end of preceding month;
- c) It has no weekly reserve deficiency against deposit liabilities, deposit substitutes and common trust funds during the last twelve (12) weeks immediately preceding the date of application;
- d) It maintains adequate provisions for probable losses commensurate to the quality of its asset portfolio but not lower than the required valuation reserves as determined by the BSP; and
- e) It has a CAMELS Composite Rating of at least "3" in the last regular examination by the Bangko Sentral.

"Subsec. 1631.5 *Promotional materials; stationeries and other paraphernalia*

- a. The promotional materials used in the sale of these financial products, especially posters displayed in bank premises, shall contain the following:

- (1) The logo of the allied undertaking or investment house unit promoting the financial product accompanied by the words "A subsidiary or affiliate, as the case may be of [name of parent bank]; and
- (2) The words "financial product/s of (name of allied undertaking/investment house unit) is/are not insured by the Philippine Deposit Insurance Corporation and is/are not guaranteed by the (name of parent bank)" shall be printed in capital letters, black letters against light background/white letters against dark background with the following print size:

Size of Promotional Material	Print size*
Legal/letter size	12 points
15"x20"	24 points
19"x25"	36 points

*For other measurements of promotional materials, use of print size closest to indicated size of promotional material.

- b. Stationeries and other paraphernalia used in the sale of aforementioned products shall bear the logo of the allied undertaking or investment house unit promoting the financial product and the words "a subsidiary or affiliate, as the case may be of (name of parent bank)" should appear visibly under the logo.

"Subsec. 1631.6 **Contracts/Information to be disclosed**

- c. The following paragraph shall be printed at the end of the contract in the print size as the rest of the contract, or font size 12 whichever is bigger, in capital letters and in bold font:

"This contract is between (name of client) and (name of allied undertaking or investment house unit), a subsidiary or affiliate, as the case may be of (name of parent bank). All transactions arising out of or related to this contract shall be binding only between these two (2) contracting parties. It is understood that this transaction is neither insured by the Philippine Deposit Insurance Corporation nor guaranteed by the parent bank."

- d. All other limitations that may affect the interest of the client shall also be disclosed in the contract.

"Subsec. 1631.7 **Training.** The bank shall conduct training for the officers and staff who will be involved in the handling of the sale of non-bank products to ensure that they do not unwittingly guarantee or

give the impression that the financial products being offered are those of the parent bank.

"Subsec. 1631.8 **Other Requirements**

- a. Record-keeping and accounting for the financial products of the bank's allied undertaking or investment house unit shall be separate from those of the parent bank.
- b. The bank, in coordination with its allied undertaking/investment house unit, shall formulate the guidelines and establish clear procedures for evaluating client suitability.

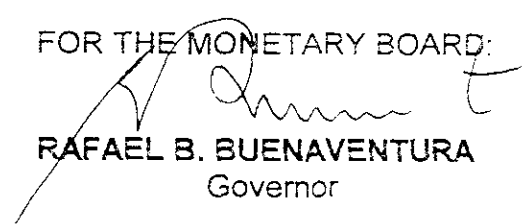
"Subsec. 1631.9-1631.10 (**Reserved**)

"Sec. X632 **Sanctions**. Violations of the provisions of these Sections shall constitute grounds for the imposition on the bank of the following:

- a. Monetary fines – Any amount as may be authorized by the Monetary Board not to exceed Thirty Thousand pesos (₱30,000) a day for each violation from the time the violation was committed until it is corrected;
- b. Non-monetary penalty
 - (1) Suspension of rediscounting privileges or access to Bangko Sentral credit facilities; and
 - (2) Other sanctions as the Monetary Board may impose depending on the gravity of the offense.

This Circular shall take effect immediately.

FOR THE MONETARY BOARD:


RAFAEL B. BUENAVENTURA
Governor

Nov. 8 2002