

"SEC. 406. Every mutual benefit association licensed to do business as such shall issue membership certificates to its members specifying the benefits to which such members are entitled.

"Such certificates, together with the articles of incorporation of the association or its constitution and bylaws, and all existing laws as may be pertinent shall constitute the agreement, as of the date of its issuance, between the association and the member. The membership certificate shall be in a form previously approved by the Commissioner.

"SEC. 407. A mutual benefit association may, by reinsurance agreement, cede in whole or in part any individual risk or risks under certificates of insurance issued by it, only to a life insurance company authorized to transact business or to a professional reinsurer authorized to accept life risks in the Philippines: *Provided*, That a copy of the draft of such reinsurance agreement shall be submitted to the Commissioner for his approval. The association may take credit for the reserves on such ceded risks to the extent reinsured.

"SEC. 408. The constitution or bylaws of a mutual benefit association must distinctly state the purpose for which dues and/or assessments are made and collected and the portion thereof which may be used for expenses.

"Death benefit and other relief funds shall be created and used exclusively for paying benefits due the members under their respective membership certificates. A general fund shall likewise be created and used for expenses of administration of the association.

"A mutual benefit association shall only maintain free and unassigned surplus of not more than twenty percent (20%) of its total liabilities as verified by the Commissioner. Any amount in excess shall be returned to the members by way of dividends,

enhancing the equity value or providing benefits in kind and other relevant services. In addition, subject to the approval of the Commissioner, a mutual benefit association may allocate a portion for capacity building and research and development such as developing new products and services, upgrading and improving operating systems and equipment and continuing member education.

"SEC. 409. Every outstanding membership certificate must have an equity value equivalent to at least fifty percent (50%) of the total contributions collected thereon. The equity value only applies to basic life insurance product and excludes optional products.

"SEC. 410. Every mutual benefit association must accumulate and maintain, out of the periodic dues collected from its members, sufficient reserves for the payment of claims or obligations for which it shall hold funds in securities satisfactory to the Commissioner consisting of bonds of the Government of the Philippines, or any of its political subdivisions and instrumentalities, or in such other good securities as may be approved by the Commissioner.

"The reserve liability shall be established in accordance with actuarial procedures and shall be approved by the Commissioner.

"The articles of incorporation or the constitution and bylaws of a mutual benefit association must provide that if its reserve as to all or any class of certificates becomes impaired, its board of directors or trustees may require that there shall be paid by the members to the association the amount of the members' equitable proportion of such deficiency as ascertained by said board and that if the payment be not made it shall stand as an indebtedness against the membership certificates of the defaulting members and draw interest not to exceed five percent (5%) per annum compounded annually.