

explained that the cash flow in June was negative because of the payment of the Claim of Grandsler Garments owned by Shirly Cai in the amount of P33.5Million. He further explained that of the P33.5Million, ABIC's Retention is only P7.1Million and the difference amounting to P26.4Million is for the account of the reinsurers under the Treaty. He also explained that except for National Reinsurance Corporation of the Philippines ("Nat Re") which paid last June 27, 2019 its 20% share of the Claim amounting to P5.3Million, the other reinsurers have not yet paid their share of the Claim. He added that the other reinsurers who have not yet paid their corresponding share of the Claim are Mafre with 35% share amounting to P9.2Million; UIB with 30% share amounting to P7.9Million; and Malayan with 15% share amounting to P4.0Million.

On the plan to push Marine production by next year, when asked by the Board on how the people are being trained to have the technical expertise, President R. B. Montalbo, Jr. informed the Board that they have invited one of the foreign insurance brokers to bring in somebody to conduct lecture to ABIC employees so somebody from Singapore was sent by the foreign insurance broker who conducted lecture to the support units like Claims and Underwriting and also the Sales staff. He also explained that next year, Management will just have to decide if the people are ready or they will have to hire somebody who is an expert in Marine Line.

Director M. T. Gonzales stated that somebody told him that Marine insurance is one of the hardest if not the hardest insurance line. He added that he was told that to be a Marine insurance expert is harder than to be a banker. He advised that in the meantime, ABIC should focus on ABIC All-in 888 which based on the figures is very promising.

Director R. T. Chua commented that may be ABIC should hire an expert to handle Marine insurance. She also stated that ABIC should not go into Marine insurance without being ready.

President R. B. Montalbo, Jr. thanked Directors M. T. Gonzales and R. T. Chua for the caution and their comments and suggestions. He also assured the Board that they will consider the comments and suggestions seriously and that they will not go into Marine insurance without being ready.

After some further discussion, the Board duly noted the report.

V. BUSINESS MATTERS

1. President R. B. Montalbo, Jr. then presented the various proposals/recommendations and matters for approval which the Board of Directors individually and exhaustively discussed. Thereafter, the Board of Directors, on motions duly made and seconded, unanimously adopted and approved the following resolutions:

1.01 ENGAGEMENT OF SGV RISK ADVISORY DIVISION FOR THE ENHANCEMENT OF THE IN-HOUSE SYSTEM FOR BIR REGISTRATION

Pres. R. B. Montalbo, Jr. sought Board approval of the engagement of SyCip Gorres Velayo & Co. ("SGV") Risk Advisory Division for the

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enhancement of ABIC's in-house system for Bureau of Internal Revenue ("BIR") Registration. He explained that:

- It will be recalled that during the last Board meeting, he reported that ABIC's in-house system which is producing ABIC's receipts is not registered with the BIR.
- The last time that ABIC was audited by BIR was in 2013 but two (2) weeks ago, a letter was received from BIR saying that they will be scheduling the audit of ABIC. So, probably anytime this year, ABIC will be audited by the BIR.
- ABIC actually has two (2) choices which are either to buy a system which is already in use and can be easily registered *OR* to just enhance its existing in-house system.
- If ABIC opts to enhance its existing in-house system, the major challenges or problems in the current ABIC system are (i.) the BIR requirements are not complied with; (ii.) some of the processes are not yet supported by the system requiring substantial manual procedures; (iii.) inability of the current system to support ABIC's growth plans to pursue open market like for instance if ABIC would go full digital or do a tie-up with third (3rd) - party such as Bayantel for the sale of insurance policies, etc.; (iv.) data analytics have been initiated, however, not all data are captured by the system for business insights; and finally, (v.) the goal of improved service quality may not be achieved in the absence of a robust ABIC system and processes.
- To address the above-enumerated challenges and problems, SGV offered their services to do an independent and thorough end-to-end gap assessment and analysis of ABIC's IT systems and processes against business, regulatory and control requirements, including ABIC's policies and procedures, applicable frameworks and standards and leading practices.
- Specifically, SGV's scope of work will cover Channel Management; Underwriting and Pricing; Policy Operations; Billing and Collections; Claims; Reinsurance and Risk Transfer; Commissions; Disbursements; Investment Management; Timekeeping and Payroll; Compliance; and Financial Statement Close Process. It will also cover all Lines that ABIC are selling and will cover practically everybody in the office and all the channels that ABIC is using.
- For its services, SGV is charging P2.7Million, excluding Value Added Tax ("VAT") and out-of-pocket expenses, and based on its estimate, it will take them about twelve (12) weeks or three (3) months to finish everything on the assumption that all the documents and materials are readily available.
- To determine how expensive is the P2.7Million, a comparison of fees was done, as follows:
 - If ABIC buys WebGen which is being used by most companies, the total cost is about P30.0Million to

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P35.0Million and ABIC does not own the source code so ABIC will always be dependent on WebGen for any enhancements to the system and for every enhancement, ABIC will have to pay. On top of the P30.0Million to P35.0Million total cost, ABIC will have to pay on an annual basis starting on the second (2nd) year 15% of the total cost which is P5.0Million for the annual maintenance fee. The contract is only for 3 years and migration will take at least 1 year. In sum, the total cost of acquiring a readily available and registered system will be P30.0Million to P35.0Million plus P5.0Million annual maintenance fee starting on the 2nd year.

- If ABIC does an enhancement of its existing system, SGV will be charging P2.7Million plus VAT and out-of-pocket expenses estimated at P3.2Million for the IT Review Fees and then the cost of developing new programs to enhance the system will be about P2.0Million and then the Project Management (i.e. the Business Analyst and the Project Manager) will be P1.5Million; and in terms of system upgrade, licensing and maintenance, ABIC does not have to pay for the next 3 years, so, total, ABIC will just be spending around P6.7Million (estimate). Even if the total goes up to P10.0Million, it would still be cheaper than getting a readily available and registered system. In addition, the source code will be owned by ABIC. The entire process will also take 12 months or 1 year, that is, 3 months for the study by SGV and then 9 months for the system development.
- Hence, the recommendation.

Director Peter Y. Ong inquired whether it is assured that the enhanced system will be compliant with the BIR requirements. In response thereto, President R. B. Montalbo, Jr. explained that SGV is being engaged precisely for that purpose. He further explained that SGV is supposed to make sure that they study the existing system and then they submit their proposals and recommendations on how to improve the system so it can be submitted to the BIR for registration. He added that SGV will also help in the registration of the system with the BIR and in the handling of penalties, if any.

Director R. T. Chua pointed out that WebGen, although it is the most popular, also has a lot of problems based on feedback.

After due deliberation and on motion duly made and seconded, the Board unanimously resolved, thus:

BOARD RESOLUTION NO. 77-19

RESOLVED, to approve the engagement of SyCip Gorres Velayo & Co. (SGV) Risk Advisory Division to perform an enterprise review of AlliedBankers Insurance Corporation's (ABIC's) business processes and supporting IT systems, primarily for Bureau of Internal Revenue (BIR) registration and utilization of its full functionalities, under the following terms and conditions:

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I. SCOPE OF SERVICES

Performance of an independent, wholistic, end-to-end gap assessment of ABIC existing business processes and supporting systems against business, regulatory and control requirements, including ABIC policies, procedures, applicable frameworks and standards and leading practices, as follows:

1. Channel Management;
2. Underwriting and Pricing;
3. Policy Operations;
4. Billings and Collections;
5. Claims;
6. Reinsurance and Risk Transfer;
7. Commissions;
8. Disbursements;
9. Investment Management;
10. Timekeeping and Payroll;
11. Compliance;
12. Financial Statement Close Process; and
13. IT Support Processes.

II. FEES

1. Professional/Service Fee	- P2,700,000.00
2. Value Added Tax	- 325,000.00
3. Estimated Out-of-Pocket Expenses	- 175,000.00

TOTAL	- P3,200,000.00

1.02 EXTENSION OF CONTRACTUAL SERVICES

President R. B. Montalbo, Jr. also sought approval of the extension of the contractual services of Marcelina F. Valles as Head of Corporate Compliance Department for twelve (12) months. He explained that as suggested by the Board in the previous meeting, the recommendation is now for twelve (12) months extension because anyway there is a provision in the Contract which allows ABIC to shorten or end the services at anytime. A brief discussion on the qualifications, credentials and performance of Ms. Valles followed. Thereafter, the Board of Directors, on motion duly made and seconded, unanimously resolved, thus:

BOARD RESOLUTION NO. 78-19

RESOLVED, to approve the extension of the contractual services of Marcelina F. Valles as Head of Corporate Compliance Department for twelve (12) months effective August 27, 2019 to August 26, 2020.

2. The Board of Directors also individually and extensively discussed the various matters for information/notation, as follows:

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