Case Comment:

THE INSURANCE AGENT-INSURER EMPLOYMENT RELATIONSHIP IN THE LIGHT OF 'GREPALIFE V. NLRC'

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I. THE PROBLEM

On May 29, 1987, the Supreme Court of the Republic of the Philippines handed down a decision in the case of *Great Pacific Life Assurance Corporation (GREPALIFE) vs. The National Labor Relations Commission (NLRC),*[1] ruling that private respondent Victor T. Saren, who had filed an application for a Certificate of Authority as an Insurance Agent of petitioner GREPALIFE, was not an employee of the latter, and was therefore not entitled to protection by the provisions on Unjust Dismissal with claims for Labor Standard Benefits in the Labor Code of the Philippines.[2] The High Court's Second Division, speaking through Associate Justice Hugo Gutierrez Jr., and after noting that the respondent was a mere trainee until he had taken and passed the examinations for insurance agents and has been issued a license by the Insurance Commission, declared that "before Mr. Saren can be hired as an insurance agent, he must first qualify and get the necessary license. No regular employee-employer relationship could exist between the petitioner and the private respondent until the legal requirements were first met. The petitioner would have been violating the law if it hired Mr. Saren as an insurance agent before he had complied with the necessary requirements."[3]

This latest decision affecting one of the country's most neglected — but definitely vital — industries was premised on the fact that the respondent was a mere trainee of the petitioner insurance company, and being such, the respondent could not claim the privileges granted to regular employees by the Labor Code. The Court, however, failed to settle a growing issue on the employment status of insurance agents which is now being severely felt by the entire insurance industry.

The NLRC, in a number of cases filed before it for Illegal Dismissal, has ruled in favor of insurance agents, regarding them as regular employees entitled to reinstatement and backwages in case of unlawful dismissal.

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1 G.R. No. L-74113, 150 SCRA 601 (1987).
2 Pres. Decree No. 442 (1974), as amended.
3 GREPALIFE vs. NLRC, *supra* note 1 at 605.

The classification of insurance agents as employees is vehemently contested by insurance companies.

Is the relationship between insurance agents and the insurance company that of *agent and principal*, to be governtd by the Insurance Code and the Civil Code provisions on Agency; or one of *employer-employee*, to be governed by the Labor Code? Are insurance agents entitled to the employee benefits prescribed by the Labor Code? Does the NLRC have jurisdiction to take cognizance of the controversy between insurance agent and the insurance company, arising from their agency relations? This paper shall provide a comprehensive discussion on the various laws affecting the Insurance Industry in an effort to resolve the above issues. This paper shall also discuss the socio-economic implications created by the conclusions raised herein, and how such conclusions would affect the insurance industry in general.

II. OPERATIONS IN THE INSURANCE INDUSTRY

Before any discussion on the kind of work which an insurance agent performs for the mother company, a brief discussion of the operations of a typical insurance firm is in order.

There are two basic kinds of insurance companies:[4] life and non-life (property). However, the structure of both kinds of companies are basically similar, if not altogether identical.

Once the insurance company is issued a license by the Insurance Commission to engage as principal in the insurance business,[5] the company designates agents to sell its insurance plans, to collect the premium payments of the policyholders, and to service the needs of such policyholders. These agents are under individual contracts and are compensated by commissions and bonuses based on the actual volume or amount of insurance sold and premium payments that they collect. The purely administrative aspects of the business operation, such as the processing of insurance applications, the issuance and maintenance of policies, receipt and updating of premium payments, the payment of policy benefits and claims, the monitoring and recording of the company finances, including the computation of commission or bonuses due the agents are carried out in the company's principal offices, usually located in Metro Manila. A few company employees holding regular plantilla items are also assigned in regional offices in certain parts of the country to perform cash and records collection functions to facilitate the transmittal and monitoring of funds, reports and

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4 M. C. CAMPOS, INSURANCE 22 (1983). See also INSURANCE CODE Sec. 187, last paragraph, which prohibits any insurance company from engaging in the business of life and non-life insurance, unless specifically authorized by the Insurance Commissioner.

5 Presidential Decree No. 612 as amended, Sec. 184, defines *insurer or insurance company* as, "all individuals, partnerships, associates, or corporations x x x *engaged as principals in the insurance business x x x.*" (emphasis supplied.)

documents, from the provincial agencies to the principal office. In each region, agency offices are allowed to operate, the number of such agencies depending on the volume of actual and potential business generated therein.

With regard to the time of payment (and collection by agents) of premiums, the premiums for property insurance are usually paid in full at the start of the insurance coverage. However, the time of collection of premiums for life insurance are different. Life insurance companies usually have three main lines of products or insurance plans: ordinary life, industrial life, and group life insurance plans. Ordinary life plans are those whose premiums are payable either quarterly, semi-annually or annually. They are medical or non-medical, depending on the amount of life insurance applied for. Industrial life plans are usually non-medical. The premiums of such plans are payable either daily, weekly or monthly, collectible by the insurance agents at the policyholder's residence or any place designated by the latter. Group life plans, on the other hand, are non-medical insurance specially designed to cover a particular group, such as company employees, students, loan borrowers, and the like.

In view of the nature of industrial life plans, which requires a more elaborate system of recording and reporting of the weekly or monthly premium payment of the policyholders, as well as the greater number of industrial life policyholders that must be serviced, the area or territory covered by an industrial life agency, which is called "district office" (to differentiate it from an ordinary life agency), is further divided into zones. The industrial life agents (also called 'debit agents', to differentiate them from ordinary life agents, who are referred to as underwriters) attached to a district office or assigned to specific zones within which they can solicit or sell industrial life policies or collect the premium payments of policyholders in the area.

The selling or marketing and collection activities of the industrial life debit agents in a zone are coordinated by a zone supervisor. Such activities of the agents and zone supervisors in turn are being coordinated by the principal representative of the insurance company in the area, who is called "district manager" or branch manager. The district manager, zone supervisors, and debit agents are *all under agency contracts* with the insurance company, and are compensated by commissions and bonuses based or dependent on the volume or amount of insurance actually sold, and premium payments collected by them. As manager of an Agency office (or "district office"), such contracted principal agent agrees to produce or reach a fixed 'production goal' or quota of premium collections. To reach the quota fixed in his contract, it will be the concern of such district manager to have agents (also under contract with the insurance company) who can sell insurance plans and reach the Agency's target of premium collections or "production goals." To increase efficiency and insurance

solicitation, and thereby bring higher returns to him in the form of commissions, the agency manager is allowed in his agency contract, on his own and without the intervention of the insurance company, to hire persons to do the paper or clerical work for them in the agency offices, such as preparation of collection and production reports and similar tasks. The persons hired by the agency manager are compensated by said agency manager from his personal funds, as the works done are those that the manager himself is obliged under his agency contract to perform.

III. INSURANCE AGENTS AND PHILIPPINE LAW

A. *Under the Labor Code*

On whether a particular worker is a regular employee or not, the Labor Code provides:

> "The provisions of written agreement to the contrary notwithstanding and regardless of the oral agreements of the parties, an employment shall be deemed to be regular where the employee has been engaged to perform activities which are usually necessary or desirable in the usual business or trade of the employer, x x x"[6]

their insurance companies, usually for a term of three years. The work they perform — collection of premiums, maintenance of the needs of the policyholders and turnover of funds collected — constitute the lifeblood of the insurance company. Although most insurance companies also collect interest generated from loans using the funds coming from premiums, such premiums collected by insurance agents are still the primary sources of income of such companies. Thus, notwithstanding any label or name given to such group of workers, insurance agents satisfy the requisites of being considered a regular employee under the Labor Code, based on the performance of tasks which are integral and essential to the continuance and progress of the insurance company where they work. The proviso in the second paragraph of Article 281 also stipulates that 'any employee who has rendered at least one year of service, whether such service is continuous or broken, shall be considered a regular employee with respect to the activity in which he is employee x x x.'[7] Therefore,

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[6] ART. 281, *op. cit.*, at note 2:

"The provisions of written agreement to the contrary notwithstanding and regardless of the oral agreements of the parties, an employment shall be deemed to be regular where the employee has been engaged to perform activities which are usually necessary or desirable in the usual business or trade of the employer, except where the employment has been fixed for a specific project or undertaking the completion or termination of the employee or where the work or services to be performed is seasonal in nature and the employment is for the duration of the season.

"An employment shall be deemed to be casual if it is not covered by the preceding paragraph: *Provided,* That, any employee who has rendered at least one year of service, whether such service is continuous or broken, shall be considered a regular employee with respect to the activity in which he is employed and his employment shall continue which such actually exists."

[7] *Ibid.*

the application of the provisions of the Labor Code leads to the logical conclusion that agents are regular employees of insurance companies for which they work for, and are entitled not only to the privileges of regular employees, but their services could not be terminated without just cause unless authorized by Title I Book VI of the Labor Code.[8]

B. *Existence of Employer-Employee Relationship*

However, before any affirmative determination on the applicability of Labor laws to any group of workers, it must first be borne in mind that the application of statutes on labor standards and welfare legislation would have to depend on the existence of an employment relation.

Generally, an employer-employee relationship exists where the person for whom the services are performed reserves a right to control not only the work to be achieved but also the means to be used in reaching such end.[9] However, in determining the existence of an employer-employee relationship, several key elements must be further taken into consideration, to wit: 1) the selection and engagement of the employee; 2) the payment of wages; 3) the power of dismissal; and 4) the employer's power to control the employee's conduct.[10]

1) Selection and Engagement of the Employee

Debit agents, district supervisors, and branch managers in the different sales agency units are selected and hired in the same manner as regular employees. The agents submit application forms, undergo interviews and are subsequently designated as agents upon the acceptance of their applications. There are however additional criteria in the selection of insurance agents, which set them apart from regular employees. These additional criteria are discussed at a later part of this paper under 'the Insurance Code as Applicable to Insurance Agents.'[11] Suffice it to say at this point that an insurance company does not have a free and unlimited right to hire anybody as an insurance agent, and for an insurance company to do such would subject it to civil and administrative sanctions.

A reservation must nevertheless be made with regard to office personnel hired by an agency manager to increase the working efficiency in his unit. As stated earlier, the agency manager, when hiring such office workers, does not represent the management of the insurance company during the selection process. The persons so hired by the manager are compen-

[8] Pres. Decree No. 442 (1974) as amended, Art. 280:
"In cases of regular employment, the employer shall not terminate the services of an employee except for a just cause or when authorized by this Title. An employee who is unjustly dismissed from work shall be entitled to reinstatement without loss of seniority rights and to his backwages computed from the time his compensation was withheld from him up to the time of his reinstatement.

[9] Alabama Highway Express Co. vs. Local 612, 108 S2d 350 (1959), cited in LVN Pictures, Inc. vs. Philippine Musicians Guild, 1 SCRA 132 (1961).

[10] P. FERNANDEZ, LAW ON LABOR STANDARDS 18 (1978).

sated by said agency manager *from his personal funds,* as the work done are those that the manager himself is obliged under his agency contract to perform. The insurance company is not privy to agreements of this nature. It does not conduct interviews or other recruitment requirements. The company does not process nor issue any appointment to these agency managers' staff. It does not pay their salaries, neither does it maintain any service or attendance record of these persons, nor are they subject to the organization regulations on hours of work and office discipline. Such workers at the outset cannot be regarded as employees of the insurance company.

2) Payment of wages and Power of Dismissal

'Wage' as defined under the Labor Code are 'any renumeration or earnings, however designated, capable of being expressed in terms of money whether fixed or ascertained on a time, task, piece or commission basis x x x."[12] Such a definition is wide enough to include the income received by insurance agents, which are in the form of commissions from sales.

Agency managers are also given allowances, which must, however, be validated to be claimed (claims to be justified by receipts of actual expenditures made).

Agents may likewise be dismissed for the same grounds as regular employees. But in any case, the employment of insurance agents are regulated by the terms of their respective contracts of employment (subject to the argumentation that they are regular employees with security of tenure).[13]

3) Power of Control

In ascertaining the existence of an employment relation, Philippine courts rely on several tests, the most significant being the so-called 'control test.'

Under the 'control test', the person contracted to perform the service is an 'employee' when he is subject to the control of the hirer not only as to the result but also as to the manner or details of performance.[14] When a person is answerable to the 'employer' only as to the results of the activity to be performed, or when exercising an independent employment, contracts to do a piece of work according to his own methods without being subject to the control of his employer except as to the result of his work; or engages to perform a certain service for another according to his own manner and methods from the control and direction of his employer in all matters connected with the performance of the service except as to

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11 *Infra.*
12 Pres. Decree No. 442 (1974), as amended, Art. 97(f).
13 *Supra.*
14 P. V. FERNANDEZ, *supra* note 10.

the result of the work, such individual is regarded as an 'independent contractor.'[15]

However, it cannot be gainsaid that the mere fact that the employer reserves that right to supervise or inspect the work during its performance does not make the relationship one of employer-employee.[16] Other factors must likewise be weighed. The existence of the employment relationship must be gauged not by isolated determinants, such as the right to control, but upon consideration of the circumstances of the entire work relationship.[17] Thus, as stated in the case of *Casement vs. Brown*:

> "The will of the companies was represented only in the means by which it was accomplished. This gave to the defendants the status of independent contractors, and that status was not affected by the fact that, instead of waiting until the close of the work for acceptance by the engineers of the companies, the contract provided for their daily supervision and approval of both material and work."[18]

The fact that supervision and control was exercised by the the relationship as one of the work does *not* automatically classify the relationship as one of employer-employee. What is essential is a clear showing that the supervision pertains to the manner in which the results are obtained as well as to the results themselves arrive at the conclusion of the existence of an employment relationship. Supervision relating to results contracted to be accomplished does not transform the relationship of employer-independent contractor to that of employer-employee.[19]

In reality, the owner may even retain broad general powers of supervision and control as to the results of the work so as to insure satisfactory performance of the independent contract — including the right to inspect,[20] the right to stop the work,[21] the right to make suggestions or recommendations as to details of the work,[22] the right to prescribe alterations or deviations in the work[23] — without changing the relationship from that of owner and independent contractor or the duties arising from that relationship.[24]

Let us analyze the work which an insurance agent performs for the insurance company to determine not only whether the latter exercises control over the former but also the extent of such control — whether the

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[15] P. V. FERNANDEZ, LABOR RELATIONS LAW REVISED ED. 22-23 (1985).
[16] Morris G. Sullivan vs. G.E. Co., 226 F2d 290 (1955), 291.
[17] FERNANDEZ, *supra* note 10.
[18] 148 U.S. 615, 13 S. Ct. 672 (1893) at 675.
[19] Roybal vs. Bates Lumber Co., 412 P2d 555 (1966) at 557.
[20] Callan vs. Bull, 113 Cal. 593, 598-599, 45 P. 1017 (1896).
[21] Fay vs. German Gen. — Ben. Soc., 163 Cal. 118, 122, 124 P. 844 (1912).
[22] SA Gerrard Co., vs. Industrial Acc. Comm., 17 Cal. 2d 411, 414, 110 P2d 377 (1941).
[23] Green vs. Soule, 145 Cal 96, 99-100, 78 P 337 (1904).
[24] Macdonald vs. Shell Oil Co., 285 P2d 902 (1955) at 904.

supervision pertains only to the results of the work or includes even the manner or details thereof.

The insurance agent has direct contact with the policyholder. The company does not provide guidelines on how to sell the insurance policies. As in most enterprises engaged in selling company products, it is up for the salesman — in this case the insurance agent — and the sales unit to devise techniques and formulate strategies in order to comply with fixed standards called *quotas* which are pegged by the company for each unit. The company does not require the agents any fixed hours of work or even to go to the office every working day. It may even happen that an agent may comply with his weekly production quota in one day, work up to the late hours of the evening wooing potential clients/policyholders or doing any other activities alien to his line of work. What the insurance company is interested in is the output — sales production of the agent. This output is entered into company records through weekly performance charts. Amounts collected are deposited either in banks authorized to receive the same, or remitted to company cashiers. Receipts for the amounts are then issued and attached to the respective applications for insurance (The insurance company cannot be deemed to be insurer until it had approved the application for insurance.[25]). Upon approval by the insurance company of the application, it issues a check for the sales commission of the agent. The company retains, however, a certain percentage which would serve as a fund for the insurance agent, to be given to the latter during times when the agent doe snot have any sales. This fund ensures that the agent would continue to receive a namount from the company, even when he does not produce. This is called the 'sales commission reserve.' The supervisor and the branch manager also receive commissions based on the total collections and premiums obtained by the agents in his unit.

It can be observed that the insurance company sets production quotas, requires weekly production reports, and pays commissions based on work performed. These facts are clear evidence of control by the company. It is however doubtful that an employment relation exists. The insurance company is interested only in the end product of the work performed — the taking in of new policyholders or the renewal of the policies already expired. It does not set specific hours of work. By the nature of insurance solicitation or even collection of premiums from policyholders, the insurance agent would have to schedule the time of such activities in such a way that the clients or policyholders are at home, and more importantly, in the proper mood or frame of mind to get interested in buying insurance or to pay premiums. Hence, such selling activities would *depend*

[25] See Badger v. New York Life Ins. Co., 7 Phil. 381 (1907), where the Supreme Court ruled that "there is no contract yet for the mere signing of the application even if the premium has been paid, constitutes a mere offer on the part of the applicant and does not bind the company to issue a policy, unless there has been an agreement that such act should constitute a contract for insurance."

on the time of the clients, not on the time of the agent. It does require the compliance with weekly reports, but this monitoring method is for purposes of evaluating the performance of the insurance agent, such evaluation shall be the basis of the rehiring of the insurance agent at the end of his agency contract.

Since the insurance company is concerned only with the volume of production of the agents, then the relationship is akin to one of employer-independent contractor.[26] The kind of control exercised by the insurance company leads to no other conclusion.

The elements of an employer-employee relationship are therefore not all present in the employment relations between an insurance company and the insurance agent. The condition precedent in the application of labor legislation — the existence of an employment relation — has not been satisfied. The logical conclusion is that a part of Philippine law *other than labor laws* would have to govern the employment relations in the insurance industry.

C. *Under the Laws of Agency*

The business of buying and selling insurance is almost entirely carried on by insurance agents, brokers, solicitors, and other persons who act as representatives of sellers or buyers. Most authors on Insurance Law agree that the principles of the general law on agency apply to the relationship of insurers and insurance companies on the one hand and their agents on the other.[27] It is intended to treat here the special application of those principles to the agents and brokers who effect or deal directly in regard to the insurance contract between the insurer and the insured.[28]

An insurance agent possesses such powers as have been conferred by the company or as third persons have a right to assume that he possesses under the circumstances of the case.[29]

The insurance company grants the agent the power to contract with third persons in its behalf.[30] It is this same authority — to affect the principal's contractual relations with its policyholders — which differentiates the agent from the regular employee, for the authority granted is designed to allow the agent to enter into juridical relations, in representation of the insurance company.[31] This power is perhaps the most distinctive mark of

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26 P. V. FERNANDEZ, *supra* note 15.

27 H. DE LEON, THE INSURANCE CODE OF THE PHILIPPINES ANNOTATED 300 (1977).

28 Globe Mutual Life Insurance Co. vs. Wolff, 95 US 326, 24 L. Ed. 384 (1877) at 389. Also cited in 43 Am. Jur. 2d 198.

29 GUEVARA, THE INSURANCE CODE OF THE PHILIPPINES 136 (1952), citing Leviness v. Kaplan, 99 Md 683, 59 A 127, 32 C.J. Sec. 139, 1062.

30 H. DE LEON, COMMENTS AND CASES ON PARTNERSHIP AND AGENCY 213 (1978).

31 Justice JBL Reyes' Observation on the New Civil Code, XVI LAWYERS JOURNAL 138 (1951).

the agent as contrasted with others who act in representative capacities but are not agents.[32]

An insurance agent cannot likewise be classified as a regular agent as understood in the Civil Code.[33] One of the basic characteristics of an agency is that it is a fiduciary relationship, which means that it is one in which the parties thereto, or one of them, undertakes to act primarily in the interest of a given beneficiary.[34] Such being the case, one of the fiduciary's main duties is not to act for a party whose interests are adverse to those of the principal. However, it is a common occurrence in the insurance business that agents may sell the insurance policies of different insurance companies. Such common occurrence is in fact recognized by the Insurance Commission itself when it issued a Circular limiting any insurance agent or general agent from selling the policies of more than five insurance companies.[35] Construing the provisions of the Civil Code on Agency strictly, all insurance agents who resort to selling insurance policies of different insurance companies would have violated the fiduciary trust reposed on them by each principal-insurance company. There would therefore be an absurdity, since the Insurance Commission would have sanctioned that which is violative of the principles under the Law of Agency. The concept that the relations between the insurance company and its agents is an exception to the general rule on agency relations under the Civil Code shall be further discussed in a later part of the paper.

It was earlier stated that the employment relation between the insurer or insurance company and the insurance agent is akin to that of employer-independent contractor.

There are, however, several practical and intrinsic distinctions between an agent and an independent contractor, to wit:

1. An agent acts under the control of the principal, while an independent contractor is authorized to do the work according to his own method, without being subject to the other party's control, except insofar as the result of the work is concerned.[36]

2. The agent of the agent may be controlled by the principal, but the employees of the contractor are not the employees of the employer of the contractor.[37]

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32 H. DE LEON, *supra* note 30 at 223.

33 CIVIL CODE, Art. 1868: By the contract of agency a person binds himself to render some service or to do something in representation or on behalf of another, with the consent or authority of the latter.

34 TELLER, AGENCY 3 (1965).

35 INS. MEMO CIRC. No. 2-81 3 (December 17, 1981), which reads:

> "No person shall be licensed to act as an insurance agent or general agent of more than one life insurance company, and/or as a general agent of more than one non-life insurance company, and/or as insurance agent of more than three other non-life insurance companies x x x."

36 Fressel vs. Uy Chaco and Sons, 34 Phil. 122 (1916).

37 MECHEM, OUTLINES OF AGENCY 3rd Ed. 13 (1942).

3. The agent can bind the principal; ordinarily, the independent contractor cannot bind the employer by tort.[38]

4. Negligence of the agent is imputable to the principal,[39] while the negligence of the independent contractor is generally not imputable to his employer.

With regard to the first point, and considering the previous discussions involving control by insurance companies over their agents,[40] the insurance agent should be categorized as an independent contractor. The fact that the agents observe company guidelines on how the company business will be carried out, and that they are directed to be in the Agency office to submit their reports, do not necessarily indicate control or supervision over their work. Such guidelines are instructions to define how the subject of the agency (selling of insurance or collection of premiums) will be carried out. And such right of the principal insurance company is authorized by the Civil Code.[41] For, undeniably, by allowing these agents to sell its insurance plans and collect the premium payments of the policyholders, the insurance company is placing in these agents' hands its (the insurance company's) funds and properties. Hence, the requirement for these agents to submit their reports of production is to enable the company to know the amounts collected and the businesses generated for the period, and for no other purpose. The reports of agents are nonetheless characteristic of agency relations because the Civil Code[42] expressly made it the agents' legal obligation to account for his transactions to his principal.

The second point, that the agent's agent may be controlled by the principal, is based on an express provision of law.[43] In the case of a contractor, on the other hand, the lack of control by the employer over the contractor's employees is based on absence of privity. In almost all cases,

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38 *Ibid.*, 14.

39 Shell Co. vs. Fireman's Insurance Co., 100 Phil. 757 (1957).

40 *Infra.*

41 CIVIL CODE art. 1887, which provides:

"In the execution of the agency, the agent shall act in accordance with the instructions of the principal.

"In default thereof, he shall do all that a good father of a family would do, as required by the nature of the business."

42 CIVIL CODE art. 1891, which reads:

"Every agent is bound to render an account of his transactions and to deliver to the principal whatever he may have received by virtue of the agency, even though it may not be owing to the principal.

"Every stipulation exempting the agent from the obligation to render an account shall be void."

43 CIVIL CODE art. 1892:

"The agent may appoint a substitute if the principal has not prohibited him from doing so; but he shall be responsible for the acts of the substitute:

(1) When he was not given the power to appoint one;

(2) When he was given such power, but without designating the person, and the person appointed was notoriously incompetent or insolvent.

All acts of the substitute appointed against the prohibition of the principal shall be void.

the branch manager, who is the highest-ranking company representative in a particular sales unit, has absolute control and discretion over the administrative staff therein, with regard to hiring, salaries, control, and power to terminate. Therefore, in situations of control by the principal over the agent's agent, the relations between the insurance company and the agent is similar to one between employer and employee.

On the third and fourth points, since the agent is the duly authorized representative of the insurance company in the sales area, then it stands to reason that the latter should be held responsible for damages caused by the former in the performance of tasks in a representative capacity. In that case, the insurance agent is classified as a regular agent under the laws of agency when it comes to employer liability for tortious acts committed by subordinates.

It is clear that the laws on agency likewise cannot be strictly or absolutely and exclusively applied to insurance agents since the relationship between the insurance company and the insurance agent are deviant from the established principles and characteristics of an agency relationship.

IV. THE INSURANCE CODE AS APPLICABLE TO INSURANCE AGENTS

A specific law must be applicable to the special group of employees called insurance agents. Presidential Decree No. 612, enacted on December 18, 1974,[44] made it clear that insurance agents are indeed in a class by themselves.

The Insurance business as a special industry, governed by a special law, and regulated by a special Government agency

The business of insurance is an industry closely regulated by the government through a specific agency, the Insurance Commission, which has been vested by law with ample authority to supervise and regulate the operations of the corporations or entities engaged in the business of insurance.

The insurance business is truly a special industry. The Insurance Code does not only define what constitutes an insurance company; it even prescribes the manner in which the insurance business is to be conducted, thus:

> "SEC. 184. For purposes of this Code, the term 'insurer' or *'insurance company' shall include all* individuals, partnership, associations, or *corporations,* including government-owned or controlled corporations or entities, *engaged AS PRINCIPALS in the insurance business,* excepting mutual benefit associations. x x x" (Italics and emphasis supplied.)[45]

[44] As amended by Pres. Decree No. 1460 (1978).
[45] Pres. Decree No. 612 (1974), as amended.

Undeniably, the foregoing definition constituted in itself a limitation on the manner of operation of the business by the insurance companies. For the law, in defining insurance companies as those *engaged as PRINCIPALS* in the insurance business, in effect decreed that they must engage the services of persons who will act as their AGENTS, in the said business.

It must be in recognition of this indispensability of agents in insurance operation that the Insurance Code expressly provided for the regulation of sales agencies, insurance agents, brokers, and other persons rendering technical services peculiar to insurance operation.

An Insurance Agent as a representative of the Insurance Company

Title I of Chapter IV of the Insurance Code treats of 'Insurance Agents and Insurance brokers', which are contemplated to be persons or employees of insurance companies, but licensed acting as the latter's representatives. This is clear from the provisions of Article 299.[46]

The Insurance Code defines an insurance agent, as —

> "Any person who for compensation *solicits or obtains* insurance *on behalf of any insurance company* or *transmits for a person* other than himself an application for a policy or contract of insurance to or from such company or *offers or assumes to act in the negotiating* of such insurance, x x x"[47]

who shall thereby become liable to all the duties, requirements, liabilities and penalties to which an agent is subject. Here, it must be carefully noted that while an employee works for the employer, an insurance agent, by express provision of the Insurance Code, works on behalf of the principal — the Insurance Company.

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[46] Pres. Decree No. 612 (1974), as amended, sec. 299 provides:

"No insurance company doing business in the Philippines, nor any agent, thereof, shall pay any commission or other compensation to any person for services in obtaining insurance, unless such person shall have first procured from the Commissioner a license to act as an insurance agent of such company or as an insurance broker as hereinafter provided.

No person shall act as an insurance agent or as an insurance broker in the solicitation or procurement of applications for insurance, or receive for services in obtaining insurance, any commission or other compensation from any insurance company doing business in the Philippines, or any agent thereof, without first procuring a license so to act from the Commissioner, which must be renewed annually on the first day of January, or within six months thereafter. Such license shall be issued by the Commissioner only upon the written application of the person desiring it, such application if for a license to act as insurance agent, being approved and countersigned by the company such person desires to represent, and shall be upon a form prescribed by the Commissioner giving such information as he may require and upon payment of the corresponding fee hereinafter prescribed. The Commissioner shall satisfy himself as to the competence and trustworthiness of the applicant and shall have the right to refuse to issue or renew and to suspend or revoke any such license in his discretion. No such license shall be valid after the thirtieth day of June of the year following its issuance unless it is renewed. (As amended by Presidential Decree No. 1455).

[47] Pres. Decree No. 612 (1974), as amended, sec. 300.

Whatever doubt there may be regarding the role performed by the agent in the solicitation or sale of an insurance plan, is clarified by the foregoing provision of the law. For clearly, in the solicitation of insurance business or the servicing of a policy holder, the insurance agent acts as representative of the client/policyholder, when transmitting to the insurer the application for a policy or contract of insurance.

The designation given to an insurance agent is not, therefore, just a matter of label or name. That the persons undertaking the solicitation or selling of insurance to the public, and the collection of premium payments of policyholders have been specifically referred to as agents by the Insurance Code, is justified by their functions.

Insurance agents as special workers engaged in a specialized occupation or calling that requires licensing by the Insurance Commission

Insurance agents are not marketing ordinary merchandise. Solicitation of insurance applications, by express provision of law, has been professionalized, to be carried out only by persons possessing specialized skill or education and training.

The law requires such agents to possess a license or certificate of authority issued by the Insurance Commissioner. Such a license, however, shall not be issued unless the Commissioner is satisfied that the applicant has the necessary qualifications.

> "SEC. 303. The Commissioner shall, in order to determine the competence of every applicant to have the kind of license applied for, require such applicant to submit to a written examination and to pass the same to the satisfaction of the Commissioner. Such examination shall be held at such times and places as the Commissioner shall from time to time determine."[48]
>
> "SEC. 304. An applicant for the written examination mentioned in the preceding section must be of good moral character and must not have been convicted of any crime involving moral turpitude. He must *satisfactorily show to the commissioner that he has been trained* in the kind of insurance contemplated in the license applied for.
>
> Such examination may be waived if it is shown to the satisfaction of the Commissioner that *the applicant has undergone extensive education and/or training in insurance.*"[49] (Emphasis supplied.)

It is therefore evident that the Insurance Commission has a say in hiring and selection of the insurance companies' agents. The said companies do not have absolute discretion in choosing its representatives, and this emphasizes the difference between a regular employee or an agent, and an insurance agent. In fact, any attempt by an insurance company

[48] Pres. Decree No. 612 (1974), *supra* note 44.
[49] *Ibid.*

to obtain the services of an insurance agent without the latter having complied with the requirements under the above mentioned provisions shall make the former guilty of a penal offense, and may subject the officers of the same to imprisonment and/or fine.[50] It is significant to mention that unlike any other kind of industry or trade involving the marketing or merchandising of certain products or commodities, it is only in insurance-selling that the competence and trustworthiness of prospective agents are gauged, not just by the insurance company that will avail of their services, but even by a particular government agency: the Insurance Commission. And, even if the services of an insurance agent are acceptable to the insurance company, the Insurance Commissioner has been granted by law with the discretion to renew, suspend or revoke the requisite license of any insurance agent. In short, the insurance company has no absolute power of choice in the selection of insurance agents who will sell their products to the public and service its policyholders.

The Insurance Commission also has authority to refuse the issuance or renewal of a license or certificate of authority to an agent, or to suspend or revoke one already issued, for any of the grounds provided by law, among which is the misappropriation or withholding of moneys declared as held by the agent-applicant in a fiduciary capacity.[51]

By express provision of the Insurance Code, it was declared that —

> *"The premium or any portion thereof, which an insurance agent* or insurance broker *collects from an insured and which is to be paid to an insurance company because of the assumption of the liability* through the issuance of policies or contracts of insurance, *shall be held by the agent* or broker *in a fiduciary capacity* and shall not be misappropriated or converted to his own use or illegally withheld by the agent or broker.
>
> Any insurance company which delivers to an insurance agent or insurance broker or policy or contract of insurance shall be deemed to have *authorized such agent* or broker to *receive on its behalf payment of any premium which is due on such policy* or contract of insurance at the time of its issuance or delivery *or which becomes due thereon."*[52]

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[50] Pres. Decree No. 612 (1974), as amended, sec. 419:

"Any person, company or corporation subject to the supervision and control of the Commissioner who violates any provision of this Code, for which no penalty is provided, shall be deemed guilty of a penal offense, and upon conviction be punished by a fine not exceeding ten thousand pesos or imprisonment of six months, or both, at the discretion of the court.

If the offense is committed by a company or corporation, the officers, directors, or other persons responsible for its operation, management or administration, unless it can be proved that they have taken no part in the commission of the offense, shall likewise be guilty of a penal offense, and upon conviction be punished by a fine not exceeding ten thousand pesos or imprisonment of six months, or both, at the discretion of the court.

[51] Pres. Decree No. 612 (1974) as amended, sec. 305.

[52] *Id.*

Insurance agents are required to maintain specific production skill not required of other workers

One final qualification required of insurance agents, which makes them belong to a class of their own is the requirement by the Insurance Code for their maintenance of a certain standard of production skill, otherwise, they will not be entitled to renewal of their license. Section 305 of the Code expressly requires that for a license of an insurance agent to be renewed, he must have been 'actively engaged' as such agent.

> "The term 'actively engaged' shall be taken to mean that the license holder *shall have earned, during the year following the issuance of the license, commission* or other compensation for services rendered as such insurance agent or insurance broker *amounting to at least seventy-five percntum of his total income for that year. Provided, that in no case shall such commission* or other compensation *be less than three thousand six hundred pesos.*"[53] (Emphasis supplied.)

The law does not only require that the insurance agents must be actively engaged in the business subject of the agency, but the above provision is an acknowledgement that in addition to the insurance agency, the agent must have another source of income. In short, being an insurance agent is *merely one of his jobs. Certainly,* that further removes whatever support there may be to the argument that an insurance agent is an employee of the company he represents. To pursue this theory can result in the absurd situation of an insurance agent, who is required to have more than one source of income, to be considered employee of two or more companies. It must also be remembered that insurance agents are allowed to be ordinary agents for as many as five insurance companies. To state that said insurance agents are employees of their principal insurance companies would lead to the scenario of an insurance agent being an employee for five different companies. That is, to say the least, outrageous. The law could not have intended such an absurdity.

V. THE PROBLEM DISCUSSED

An insurance agent engages in activities which are necessary for the furtherance or continuation of the business of his principal, the insurance company. He is given work assignments, including the solicitation of insurance business from prospective clients and collection of premium payments from policyholders. He is required to submit weekly reports on the progress of his work. For services rendered, he is given wages in the form of commissions. But as shown earlier, such activities are the basic functions of insurance agents, who are authorized under the Insurance Law to be commissioned by an insurance company.

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[53] *Supra* note 51.

The payment of commissions based on amount of plans sold and premium payments collected does not necessarily make the debit agent an employee. On the contrary, that fact of compensation in the form of commission and bonuses based on actual production (insurance plans sold and premium collections) is even an indication that the worker is truly an agent, not an employee. It is clear that his compensation is not based on any fixed number of hours he was required to devote to the service of the insurance company; it was the production or result of his efforts that was being compensated. This is characteristic *not* of the employer-employee relations, but of principal and agent, which is always presumed to be for compensation, unless there is proof to the contrary.[54] On the other hand, the essence of an employment, under the Labor Code, is the devotion of a minimum of eight hours a day to service or at the disposal of the employer.[55]

The fact that the debit agent pursues or undertakes the activities subject of the contract of agency for many years does not *ipso facto* convert him into an employee of the principal insurance company. No such conversion may be claimed in this case where the Insurance Code itself prescribed the relations of principal and agent between the insurance company and the persons designated by it to market its products (the insurance plans) and collect the premiums therefor.

The Insurance Law itself, as already pointed out, defined the working relations between the insurance company and its agents. But even in cases where such working relations have not been categorically defined, the Supreme Court had laid down the criterion to determine the existence of employer-employee relationship in agency relations. In an earlier case involving agents marketing certain commodities, it was held:

> "The logic of the situation indeed dictates that where the element of control is absent, where the person who works for another does so more or less at his own pleasure and is not subject to definite hours of work, and in turn is compensated according to the result of his efforts and not the amount thereof, we should not find the relationship of employer and employee exists.
>
> "The fact that for certain specified causes the relationship may be terminated does not mean that such control exists, for the causes of termination thus specified have no relation to the means and methods of work they are ordinarily required of or imposed upon employees."[56]

The above standard or criterion was applied by the Secretary of Labor, in case involving *debit agents* of an insurance company, when said Executive

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[54] CIVIL CODE, art. 1975, which provides that:
"Agency is presumed to be for a compensation, unless there is proof to the contrary."

[55] Pres. Decree No. 442 (1974) as amended, art. 83:
"The normal hours of work of any *employee* shall not exceed eight (8) hours a day. (Emphasis supplied.)

[56] Investment Planning Corp. vs. SSS, 21 SCRA 924, 932.

Official ruled that such insurance agents are not employees, but agents, of the insurance company. The rationale for that ruling by an executive authority was given as follows:

> "In soliciting insurance, the debit agents are free to devise ways and means of persuading people to take out life insurance of respondent. Field underwriting is an exact profession. The artistic concept springs from the inherent sales presentations where the underwriter pictures in crystal-clear lucidity every policy provision having to do with future security, future prosperity, present peace of mind, making his prospect want the idea, to arouse desire, and to move him into positive action. Who else can mentally picture 'peace of mind', 'prosperity', 'retirement', for example, but an artist.[57] In other words, their contracts and dealings with prospective and present policyholders are personal. Respondent does not actually supervise the details of how the soliciting shall be made. As the debiting agents are left entirely on their own. If respondent disapproves the transaction, what is disapproved is the result of the debit agent's work but not the means thereof. While the respondent retains some broad powers of supervision over the debit agents through the district managers and staff supervisors, it is because of the fiduciary character of its relationship with the policyholders who are entitled to protection under the Insurance Code which we take judicial notice of. x x x
>
> "It is claimed that the debit system is an element of control. We do not agree. The delimitation of the activities of the debit agents is not the control spoken of by the Supreme Court. It is not an effective control imposed by the respondent. The debit system does not go directly into the detail of the means and methods to be utilized by the agent in the pursuit of his work. We are persuaded and we believe that the purpose behind this system is the protection of the larger interest of the policyholders based upon the idea that should a debit agent abscond with his premium collection, the damage to its policyholders is at least localized in one debit area. We find that his system goes into the achievement of the result desired by respondent which is the protection of the policyholders as mandated in the Insurance Code which we take judicial notice of. x x x
>
> "x x x We take judicial notice, however, of the practice of insurance agents of undertaking their soliciting activities on Saturdays and Sundays and this is because it is invariably on weekends when they would find their prospects in their respective homes. As a result, their chances of policies and consequent income for themselves by way of commissions are great. Of course, whether the debit agents work every day or not, *their compensation is not measured by the days that they actually worked but rather by the results* of their selling and collecting activities. x x x
>
> "x x x It is observed that the contracts of the debit agents provide for certain causes of termination thereof such as failure to submit any paid-in business over a specified period, failure to submit net weekly premium increase or new business over a specified period, failure to increase sales reserves, etc. They do not necessarily indicate control by the company over the means and methods of work of the debit agents.
>
> "x x x The conclusion is thus inescapable that the Company is concerned only with the accomplishment by the debit agents of the results

[57] MARTIREZ, PHILIPPINE INSURANCE CODE ANNOTATED 260-261 (1977).

> desired by it — the sales of insurance, the collection of premiums and remittance of the same and the protection of the interest of the policyholders.
>
> "x x x The fact that the Company has extended to the debit agents certain benefits such as group insurance, retirement, vacation leave, coverage under the Social Security System and Medicare, does not *ipso facto* create an employer-employee relationship between them. Such benefits should be looked at more as an expression of Company's concern for the agency force as an incentive to increase production x x x rather than as a legal noose to hang around the company's neck.
>
> "Under the foregoing observations, it is clear that their soliciting, selling and collecting activities, the debit agents more or less work at their own pleasure and are not subject to definite hours or conditions of work, and in turn are compensated through commission according 'to the result of their efforts and not to the amount thereof. x x x"[58]

The Civil Code clearly provides that "the contract of insurance is governed by special laws. Matters not expressly provided for in such special laws shall be regulated by this Code."[59] The special law referred to is the Insurance Code of 1978.[60] Thus, the provisions of the Civil Code pertaining to Agency may be applied in an insurance agent-insurer relationship, *but only in a suppletory manner.*[61]

VI. Does the NLRC Have Jurisdiction in Cases Involving Insurance Agents?

From the foregoing discussion, it has been established that the law contemplates the business of insurance to be so imbued wit hpublic interest that it must be closely regulated. The Insurance Code clearly conveyed the intention of the law to give the persons engaged in the trade a special class and status. It will therefore be incorrect to apply to the relations created by the insurance agency the general provisions of the Labor Code. As the Insurance Code itself has defined the relations of insurance companies and their agents to be that of principal and agent, the NLRC is devoid of jurisdiction to take cognizance of any controversy arising out of such working relationship. In any conflict arising out of these agency relations, the regular courts are the proper venue for protection or redress of the parties' respective rights.

VII. Socio-Economic Implications

In September, 1987, the Department of Finance through the Insurance Commission released statistics concerning the development of the insurance industry in the Philippines. An analysis of the figures reveals a very distressing scenario.

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58 Sena vs. Filipinas Life Assurance Co., MOL Case Nos. ROI-LRD-ID-46-77.
59 Civ. Code Art. 2011.
60 Pres. Decree No. 1460 (1978).
61 See M. C. Campos, Insurance 8-9 (1983), on the discussion of laws applicable to insurance contracts and insurance corporations.

The growth of an economy carries with it the increasing need to protect capital from calamities and fortuitous events. Expectedly, businessmen invested more between 1982 and 1986. However, the insurance industry failed to grow proportionately to the growth in the economy. In 1986, there were a total of 128 authorized insurance companies, down from 136 companies in 1982 and 130 companies in 1980. From this total, 20 were life insurance companies (down from 23 in 1982 and 22 in 1985), 102 were non-life (down from 108 in 1982) and 4 professional reinsurers (from 5 in 1982-85). Significantly, there was a marked increase in the number of ordinary agents. In 1982, there were 16,641 ordinary agents. By 1986, the number of ordinary agents had increased to 18,526. This means that the insurance companies were each making use of more insurance agents in getting business. Curiously, however, there were slight decreases in the number of general agents, underwriters, insurance and reinsurance brokers, and insurance adjusters during the same period.

There are no definite findings to justify the decline of the insurance industry during the above mentioned period. The unstable political situation during the last years of the Marcos regime, culminating in the February 1986 revolution may have influenced the trend. What is clear, however, is the fact that the industry is in grave financial danger. The steady decrease in the number of insurers attest to the unprofitability of the industry. The latest decisions of the NLRC declaring insurance agents as employees are beginning to be felt. The consequences of such decisions are now the main subject of discussion of most boards in insurance companies, for by being declared as employees, insurance agents would now be entitled to the other privileges and benefits which regular employees are entitled to, like the 13th month pay, overtime, emergency cost of living allowances, retirement and death benefits and the like. When that eventuality happens, it is believed that very few insurance companies could shoulder the increase in overhead costs. The strains in the financial structure of the companies could only lead to bankruptcy, and the subsequent death of the entire industry.

The demise of the insurance industry in the Philippines would have very serious repercussions to the entire business community. A large segment of the economy relies on the confidence brought about by securities and assurance over their property. Most business transactions are consummated because the parties are confident of being recompensed in case of damages resulting from such transactions. This must be understood in the light of modern-day commercial dealings, where merchants are more exposed to risks than in earlier times. The absence of the security in business transactions provided by insurance would greatly hamper negotiations between businessmen and could result in partial or even full paralysis of international commerce and trade, especially with regard to importations. This would result in deficiencies in essential imports like oil, chemicals in making toiletry products, and other essential goods found only in other

countries. The effect which the absence of companies dealing in insurance in the country leaves very little to the imagination. Decisions made by the executive and judicial authorities affecting as important and vital an industry as the insurance business must be based not only on the letter but more so on the spirit of the law. Such are the demands of public and national interest.

VIII. CONCLUSIONS

In answer to the issues raised at the start of this paper, the following conclusions can be drawn:

1) the insurance agent-insurer relationship is one between principal and agent, and controversies arising from the same should be governed by the provisions of the Insurance Code, with the Laws of Agency in the Civil Code to be applied in a suppletory manner;

2) the insurance agent is not an employee of the insurance company; hence, he is not entitled to the privileges and benefits granted to regular employees under the Labor Code;

3) the Labor Code not being applicable to the relations between the insurance agent and the insurance company, then the regular courts and not the NLRC have jurisdiction to settle and decide on controveries arising from the said relations.

In view of the role that the insurance industry is beginning to play in the economy of the country, and considering the growing consciousness of the Filipinos about social security, it is imperative that the nature of the work of the insurance agent and his relationship with the insurance company that he represents, be properly defined, not just from the point of view of the Labor Code but also in the light of the equally pertinent provisions of the Insurance Code and of the Civil Code on Agency.

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