



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila



Circular Letter (CL) No.:	2018-25
Date:	10 April 2018
Supersedes:	None

CIRCULAR LETTER

TO : ALL INSURANCE COMPANIES CONCERNED

SUBJECT : GUIDELINES ON COMPANIES THAT FAIL TO COMPLY WITH THE NET WORTH REQUIREMENT OF SECTION 194

WHEREAS, pursuant to the powers vested in the Insurance Commissioner by Sections 437 of the amended Insurance Code (R.A. 10607). The Commissioner may issue such ruling, instructions, circulars, orders and decisions as may be deemed necessary to secure the enforcement of the provisions of the Insurance Code.

WHEREAS, a domestic insurance company already doing business in the Philippines shall have a net worth by June 30, 2013 of Two hundred fifty million pesos (P250,000,000.00). Furthermore, said company must have by December 31, 2016 an additional Three hundred million pesos (P300,000,000.00) in net worth.; by December 31, 2019, an additional Three hundred fifty million pesos (P350,000,000.00) in net worth; and by December 31, 2022, an additional Four hundred million pesos (P400,000,000.00) in net worth¹.

WHEREAS, the minimum paid-up capital and net worth requirement must remain unimpaired for the continuance of the license¹.

WHEREAS, whenever the net worth requirement be found to be less than that required to be maintained, the Commissioner shall forthwith direct the company to make good any such deficiency. That the company in the interim shall not be permitted to take any new risk of any kind or character unless and until it make good any such deficiency².

NOW THEREFORE, by the power vested in the Insurance Commissioner under

¹ Section 194 of the Insurance Code.

² Section 200 of the Insurance Code.

Section 437 of the amended Insurance Code, the **"GUIDELINES ON COMPANIES THAT FAIL TO COMPLY WITH THE NET WORTH REQUIREMENT OF SECTION 194 "** is hereby issued for the guidance and compliance of all insurance companies doing business in the Philippines:

Section 1. Servicing Insurance Company.- as defined in Circular No. 2014-14 dated 12 May 2014, a servicing insurance company may either be:

1. A domestic insurance company which is:
 - (a) in a state of "run-off"³;
 - (b) "running-off" towards closure;
 - (c) expressly allowed by the insurance Commission to "run-off"; or
 - (d) a distressed company expressly prohibited by the insurance Commission to sell policies

Or,

2. A foreign life insurance company that withdraws from the Philippines whose business transactions are confined to accepting periodic premium payments from, or granting policy loans and paying cash surrender values of outstanding policies to, or reviving lapsed policies of, Philippine policyholders, and such other related services. (Section 286 of the amended Insurance Code)

Section 2. Coverage.- This Circular shall apply to an insurance company doing business in the Philippines that fails to comply with the following net worth requirement of Section 194:

- ₱ 250,000,000.00 by December 31, 2013
- 550,000,000.00 by December 31, 2016
- 900,000,000.00 by December 31, 2019
- 1,300,000,000.00 by December 31, 2022,

but is still able to pay its lawful obligations as they fall due in the ordinary course of business as shown in its latest IC-examined Annual Statements/Synopsis and its sworn interim financial statements as of the date of its application for servicing license.

Section 3. Exceptions.- These Guidelines shall not apply to:

- a. Company already under conservatorship, receivership and liquidation;
- b. Is the subject of an existing Cease and Desist Order issued by the Insurance Commission;
- c. Considered an Insolvent company⁴; and
- d. Already ordered to be liquidated by the Commissioner.

³ Run-off is defined as "the process of managing accounts and settling claims for an insurance business or investment fund that has stopped accepting new risks or has been closed to new business".

⁴ Section 256 of the Insurance Code.

Section 4. *Application as a Servicing Insurance Company-* Insurance company with less than the minimum net worth prescribed by Section 194 of the Amended Insurance Code shall have fifteen (15) days from effectivity of this Circular, or fifteen (15) days from receipt of the order of the Commissioner to make good any deficiency, whichever is later, to perform either of the following:

- a. Comply with the order (i.e., make good any deficiency); or
- b. Apply for a Certificate of Authority (CA) for a "Servicing Insurance Company.

As Section 200 of the Amended Insurance Code provides that an insurance company doing business in the Philippines shall at all times maintain the minimum paid-up capital and net worth requirements, any company who cannot meet the required net worth shall, in the interim, not be permitted to take any new risk of any kind or character unless and until it makes good any such deficiency.

Failure by a company to make good any deficiency or to apply a CA for Servicing Insurance Company within the period provided herein and in pursuance with this Circular shall merit the application of Section 6 hereof.

The CA for Servicing Insurance Company shall be renewable annually on or before the date of its expiration

Section 5. *Appointment of Overseer-* Notwithstanding the issuance of a servicing CA for Servicing Insurance Company, the Commissioner may appoint an overseer, if deemed necessary or appropriate to protect the public, planholders, creditors and other stakeholders of the company.

The overseer shall regularly report to the Commissioner on a monthly basis, the following:

- a. Cash flow statement,
- b. Total assets,
- c. Claims paid,
- d. Outstanding claims, and
- e. Other report as may be required by the Commission.

The remuneration of the overseer and other related expenses shall be borne by the insurance company concerned.

Section 6. *Appointment of Conservator-* If at any time after the issuance of a CA for Servicing Insurance Company or a regular Certificate of Authority, the Commissioner finds that any insurance company is in a state of continuing inability or unwillingness to maintain a condition of solvency or liquidity deemed adequate to protect the interest of policyholders and creditors, he may appoint a conservator to take charge of the assets, liabilities, and the management of such company.⁵

⁵ Section 255 of the Insurance Code.

The term solvency shall mean the inability of an insurance company to pay its lawful obligations as they fall due in the usual and ordinary course of business as may be shown by its failure to maintain the solvency requirements under Section 200 of the Insurance Code.⁶

Section 7. Merger and Consolidation.- Company with a CA for Servicing Insurance Company, in accordance with this Circular may apply for merger or consolidation subject to the provisions of Title 16 of the Insurance Code, and Circular No. Letter 2015-11.

The overseer, if one is appointed by the Commissioner, or the company concerned if no overseer is appointed, shall secure a smooth merger/consolidation process by seeing to it that all required documents are submitted on time.

Section 8. Conservatorship - It must be emphasized that the application for servicing license shall be considered as the exception rather than the rule. The Insurance Commission shall, as a general rule, place a non-compliant company under conservatorship unless it makes good the deficiency under Section 4 hereof. Hence, the application for servicing license shall be subject to the IC's evaluation taking into account the following circumstances:

- a. Positive net worth
- b. Low deficiency margin
- c. Risk-based capital
- d. Concrete investor's infusion proposal written letter of intent
- e. Concrete merger proposal
- f. Reinsurance program
- g. Normal claims processing
- h. Sufficient reserves

Section 9. Conflict.- In the event of a conflict between the provision of this Circular and any provision of earlier circular on same subject matter, the Commission shall endeavor to immediately resolve the said conflict by issuing a supplemental circular.

Section 10. Separability.-The provisions of this Circular are declared separable and, in the event any part thereof be declared invalid, the other provisions not affected thereby shall remain in force.


DENNIS B. FUNA
Insurance Commissioner



⁶ Last paragraph, Section 256 of the Insurance Code.