



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

Head Office:
P. O. Box 3589 Manila
FAX No. 522-14-34
Tel. Nos. 523-84-61 to 70
E-mail: oic@i-manila.com.ph

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INSURANCE MEMORANDUM CIRCULAR

TO : ALL MUTUAL BENEFIT ASSOCIATIONS

SUBJECT : ADOPTION OF RISK-BASED CAPITAL FRAMEWORK FOR THE PHILIPPINE MUTUAL BENEFIT ASSOCIATIONS

To establish the required amounts of members' equity to be maintained by mutual benefit associations (MBAs) in relation to their investment and insurance risks, the Insurance Commission, after consultation with the MBAs hereby approves the adoption of the Risk-Based Capital (RBC) Framework and issues the following rules and regulations pursuant to the powers vested in me by the provisions of Section 414 of the Insurance Code.

I. RBC Ratio and Members' Equity

The investments and insurance risks of the MBA shall be classified under four (4) major categories.

- A. Asset Default Risk, denoted by C-1;
- B. Insurance Pricing Risk, denoted by C-2;
- C. Interest Rate Risk, denoted by C-3; and
- D. General Business Risk, denoted by C-4.

The RBC requirement is given by the formula :

$$\text{RBC Requirement} = \sqrt{(C1 + C3)^2 + C2^2} + C4$$

The RBC ratio of the MBA shall be calculated as Members' Equity divided by the RBC requirement as determined in accordance with RBC Exhibit Instructions and Disclosures (See Annex A).

"Members' Equity" is defined as Admitted Assets minus All Liabilities inclusive of Actuarial Reserves and other obligations under the policies and membership certificates.

Every MBA is annually required to maintain a minimum RBC ratio of 100% and not fail the Trend Test as stated in (II.A.2.) below.



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