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

CN: AJA16-0061

Circular Letter (CL) No.:	2016-68
Date:	28 December 2016
Supersedes:	CL No. 2015-30

CIRCULAR LETTER

TO : **ALL LIFE AND NON-LIFE INSURANCE COMPANIES OPERATING IN THE PHILIPPINES**

SUBJECT : **AMENDED RISK-BASED CAPITAL (RBC2) FRAMEWORK**

WHEREAS, the Amended Insurance Code was passed into law on 15 August 2013 and took effect on 20 September 2013;

WHEREAS, the Insurance Commissioner under Section 437 of the Amended Insurance Code may issue such rulings, instructions, circulars, orders and decisions as may be deemed necessary to secure enforcement of the Amended Insurance Code, to ensure the efficient regulation of the insurance industry in accordance with global best practices and to protect the insuring public;

WHEREAS, 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 the net worth requirements as prescribed by the Commissioner;

WHEREAS, Section 200 requires that such solvency requirements shall be based on internationally accepted solvency frameworks and adopted only after due consultation with the insurance industry associations;

WHEREAS, due consultations through series of parallel runs and dialogues have been conducted to assess the soundness and reasonableness of the proposed amendments to the Risk-Based Capital (RBC) Framework;

NOW, THEREFORE, pursuant to the authority vested in me under Section 437 of the Amended Insurance Code, and after a series of consultations, dialogues, and discussions conducted and held with the insurance industry and other stakeholders, the following rules and regulations of the Amended RBC Framework to be known as "RBC2 Framework" are hereby promulgated:

Section 1. The RBC 2 Framework

1. The Insurance Commission (IC) has adopted a three (3) pillar risk-based approach to solvency. The pillars are comprised of the following:

   1.1. Pillar 1 includes the quantitative requirements in relation to the calculation of capital requirements and recognition of eligible capital;

   1.2. Pillar 2 covers the governance and risk management requirement that consist of a supervisory review process which may include a supervisory adjustment to capital; and

   1.3. Pillar 3 comprises the disclosure requirements designed to encourage market discipline.

2. All insurance companies shall at all times hold the RBC requirement determined in accordance with the rules and guidelines set forth in Section 2 of this Circular, plus any additional supervisory adjustment to capital that may be required by the IC.

3. All insurance companies must satisfy the minimum statutory RBC Ratio required under Section 2.

Section 2. Pillar 1 Requirements: Risk-Based Capital Ratio and Risk-Based Capital Requirement

RISK-BASED CAPITAL RATIO

1. The RBC ratio of an insurance company shall be calculated using the formula below. It is equal to the Total Available Capital (TAC) divided by the RBC requirement. The RBC requirement which is the Total Required Capital (TRC), shall be determined using the formula item 4 of Section 2.

$$Risk\ Based\ Capital\ Ratio = \frac{Total\ Available\ Capital}{RBC\ Requirement}$$

2. The minimum RBC ratio is set at 100%. All insurance companies are required to maintain the minimum RBC ratio and not fail the Trend Test as stated under Section 3 of this Circular.

TOTAL AVAILABLE CAPITAL

3. Total Available Capital (TAC) is the aggregate of Tier 1 and Tier 2 capital minus deductions, subject to applicable limits and determinations.

3.1. Tier 1 Capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 1 Capital includes:

a) Capital Stock
b) Statutory Deposit
c) Capital Stock Subscribed
d) Contributed Surplus
e) Contingency Surplus/Home office inward remittances
f) Capital Paid in Excess of Par
g) Retained Earnings/Home office Account
h) Cost of Share-Based Payment
i) Reserve Accounts
j) Treasury Stock
k) Excess Capital from subsidiaries, associates and joint ventures
l) Fifty percent (50%) of the value of future bonus applicable for life companies

3.2. Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer. Tier 2 Capital includes:

a) Reserve for Appraisal Increment – Property and Equipment
b) Remeasurement Gains (Losses) on Retirement Pension Asset (Obligation)
c) Change in Reserve Estimates due to change in interest rate assumption
d) Cumulative irredeemable preferred stocks
e) Mandatory capital loan stock and other similar capital instruments
f) Irredeemable subordinated debts
g) Revenue reserves
h) Subordinated term debts

Tier 2 Capital shall not exceed 50% of Tier 1 Capital.

3.3. Deductions to the aggregate of Tier 1 and Tier 2 capital include the following:

a) Goodwill and intangible assets
b) Investment in subsidiaries except those that qualify under item 3.4 of Section 2.
c) Advances to officers, employees, agents and etc.
d) Deferred tax assets
e) Inadmissable land, buildings, and other immovable property, plant and equipment
f) Furniture, fixtures and equipment
g) Excess of Non-admitted Assets from Tier 1 Capital

The Excess of Non-admitted Assets from Tier 1 Capital is determined by adding the amount of Non-admitted Assets and Tier 2 Capital, and the sum is subject to the limit of 50% of Tier 1 Capital.

3.4. For the purpose of determining TAC, Investments in Subsidiaries, Associates and Joint Ventures shall be classified in two (2) categories, where each category shall have a different treatment as follows:

a) Insurance related and IC regulated – To avoid double counting of capital, the amount of Excess Capital from the subsidiary shall be treated as capital for parent company.

i. Excess capital shall be computed as the difference between the amount of TAC and RBC requirement in order to meet the Statutory RBC ratio.

ii. For Joint Venture or minority shareholder arrangements, the parent company shall compute the Excess Capital using a proration of shares.

b) Non-insurance related or non-IC regulated – Non insurance related or non-IC regulated subsidiaries, joint venture or minority shareholder arrangements are treated as capital and an appropriate risk charge will apply, which is set equal to the risk factor for an unlisted equity.

RISK-BASED CAPITAL REQUIREMENT OR TOTAL REQUIRED CAPITAL

4. The RBC requirement of an insurance company is the capital that is required to be held appropriately to the risks an insurance company is exposed to.

4.1. The formula for life insurance RBC requirement is as follows:

$$RBC\ Requirement = Max\ \{C6, \sqrt{C1^2 + C2^2 + C3\ Equities^2 + C3\ Others^2 + C5^2} + C4\}$$

a) The components of the life insurance RBC requirement are:

i. C1 – Credit risk capital charge
ii. C2 – Insurance risk capital charge
iii. C3 Equities – Market risk capital charge for equities
iv. C3 Others – Market risk capital charge for other than equities
v. C4 – Operational risk capital charge
vi. C5 – Catastrophe risk capital charge
vii. C6 – Surrender risk capital charge

b) Details of the above components and risk charges are attached as Annex A.

4.2. The formula for non-life insurance RBC requirement is as follows:

$$RBC\ Requirement = \sqrt{R1^2 + R2^2 + R3\ Equities^2 + R3\ Others^2 + R5^2} + R4$$

a) The components of the non-life RBC insurance requirement are:

i. R1 – Credit risk capital charge
ii. R2 – Insurance risk capital charge
iii. R3 Equities – Market risk capital charge for equities
iv. R3 Others – Market risk capital charge for other than equities
v. R4 – Operational risk capital charge
vi. R5 – Catastrophe risk capital charge

b) Details of the above components and applicable risk charges are attached as Annex B.

4.3. All amounts to be used in the determination of the RBC requirement for life and non-life insurance companies in Annex A and Annex B, respectively should be on their appropriate market values (marked to market) at reporting date.

Section 3. Regulatory Intervention

1. Companies that fail to meet the required minimum RBC Ratio based on their quarterly and annual submissions are required to submit:

1.1. A report explaining the cause of failure to meet the required minimum RBC ratio; and

1.2. A management plan outlining the actions and/or strategies that will be done to meet the required RBC ratio for the next quarter.

2. The following are the levels of regulatory intervention based on the company's RBC ratio:

RBC Ratio (Y)	Event	Action
100% ≤ Y < 125%	Trend Test	Company required to submit linear extrapolation of the RBC ratio for the next period. If the RBC ratio based on the trend test falls below 100%, move to Company Action Event.
75 % ≤ Y < 100%	Company Action	Company required to submit RBC plan and financial projections and implement the plan accordingly.
50% ≤ Y <75%	Regulatory Action	IC authorized to issue Corrective Orders.
Y <50%	Authorized and Mandatory Control	IC authorized and required to take control of the company.

3. **Company Action Event** shall refer to any of the following events:

   a) RBC ratio of the company is less than 100% but not below 75%, or

   b) Trend Test has failed, in the event that all have occurred:

      i. The RBC ratio computed for the period (i.e. first quarter) is less than 125% but is not below 100%;

      ii. The RBC ratio has decreased over the past period; and

      iii. The difference between RBC ratio (presented in (i) above) and the decrease in the RBC ratio (presented in (ii) above) over the past period is less than 100%.

   3.1. In the event of a Company Action Event, the company shall file with the Insurance Commissioner within fifteen (15) days, upon receipt of notice from the IC, an RBC plan that shall:

      a) Identify the conditions that contributed to the event;

      b) Contain proposals of corrective action that the company intends to take and that would be expected to result in the elimination of the event;

      c) Provide projections of the company's financial statement for at least eight (8) quarterly periods with and without the proposed corrective actions, including but not limited to projections of the Balance Sheets, Analysis of Operations, Surplus Accounts, RBC Exhibits and Lines of Business information relevant to the RBC plan.

      d) Identify key assumptions impacting the company's projections and the sensitivity of the projections to the assumptions; and

      e) Identify the quality of, and problems associated with, the company's business, including but not limited to its assets, anticipated business growth, surplus strain, extraordinary exposure to risk, mix of business and use of reinsurance, if any, in each case.

   3.2. The Insurance Commissioner shall notify the company within thirty (30) days upon submission of RBC plan whether it may be implemented or is unsatisfactory. In case of the latter, the IC shall include reasons why it finds the plan unsatisfactory and proposed revisions to the RBC plan, and the company shall submit the revised RBC plan within ten (10) days upon receipt of notice.

4. **Regulatory Action Event** shall refer to any of the following events:

   a) The RBC ratio of the company is less than 75% but not below 50%;

   b) The company fails to submit an RBC plan satisfactory to the Insurance Commissioner, if any, within the filing deadline; or

   c) The Insurance Commissioner notifies the company of its failure to adhere to its RBC plan, and wherein the failure shall adversely affect the company's ability to eliminate the Company Action event in accordance with the approved RBC plan.

   4.1. In the event of a Regulatory Action Event, the Insurance Commissioner is authorized to:

      a) Require the company to submit an RBC plan within fifteen (15) days of the event;

      b) Perform such examination or analysis, as deemed necessary, of the company's accounts, operations and RBC plan; and

      c) Subsequent to the examination or analysis, issue a Corrective Order specifying corrective actions the company is required to undertake.

   4.2. The Insurance Commissioner may retain actuaries and other consultants as necessary to review the company's accounts, operations and RBC plan and to formulate the necessary Corrective Orders and the fees and costs of which shall be borne by the affected company.

5. **Authorized and Mandatory Control Action Event** shall refer to any of the following:

   a) The RBC ratio of the company is less than 50%; or

   b) The Insurance Commissioner notifies the company of its failure to satisfactorily respond to a Corrective Order as stated in Section 3 (4.1.c) above.

   5.1. In the event of an Authorized and Mandatory Control Action Event, the Insurance Commissioner is authorized to place the company under regulatory control in the best interests of the company's policy holders and creditors and of the general public.

Section 4. Reportorial Requirements

1. Every insurance company is required to accomplish and to submit three (3) quarterly and an annual reports together with the required reports and plans as

discussed and enumerated in Section 3. Templates for quarterly and annual reports will be provided to the industry by the IC.

2. The three (3) quarterly submissions shall be submitted within two (2) months after the end of each reporting period, while the annual report for the period ending 31st of December shall be submitted on or before the 30th of April of the succeeding year. The table below shows the periods covered with their corresponding submission dates:

Period Covered	**Due Date**
As of 31 March	31st of May
As of 30 June	31st of August
As of 30 September	30th of November
As of 31 December	30th of April

3. Failure to submit the reports and plans required in Sections 3 and 4 within due date shall be subject to penalties as determined by the Insurance Commissioner.

4. All submissions shall be duly signed by the preparer, together with the Chief Financial Officer (CFO) or its equivalent.

5. All insurance companies shall cause the records and reports to be kept in a convenient manner as possible.

6. All insurance companies shall retain the records and submissions made with the IC for a period of not less than ten (10) years.

Section 6. Confidentiality

With the exception of the RBC templates and schedules that will be released by the IC to the industry, all other disclosures and RBC plans filed with the Commissioner shall be kept confidential in the same manner as the other statements and reports required by the IC.

Section 7. Compliance with Minimum Statutory Net worth

The company shall, in addition to its compliance with the requirements of this Circular Letter, shall comply with the minimum net worth requirements as provided in Section 194 of the Amended Insurance Code.

Section 8. Implementation and Effectivity

The requirements in this Circular Letter shall be implemented on 01 January 2017.

Section 9. Miscellaneous Provision

1. The IC shall review and change this RBC framework as deemed necessary.

2. The requirements for Pillar 2 and Pillar 3 of the RBC2 framework will be covered by a separate IC Circular.

3. The issuance of this Circular Letter, upon effectivity, supersedes all previously issued Circular Letters on RBC.

DENNIS B. FUNA
Insurance Commissioner

ANNEX A

DETERMINATION OF RISK BASED CAPITAL REQUIREMENTS FOR LIFE INSURANCE COMPANIES

The formula for life insurance RBC requirement is as follows:

$$RBC\ Requirement = Max\ \{C6, \sqrt{C1^2 + C2^2 + C3\ Equities^2 + C3\ Others^2 + C5^2} + C4\}$$

a) The components of the life insurance RBC requirement are:

i. C1 – Credit risk capital charge
ii. C2 – Insurance risk capital charge
iii. C3 Equities – Market risk capital charge for equities
iv. C3 Others – Market risk capital charge for other than equities
v. C4 – Operational risk capital charge
vi. C5 – Catastrophe risk capital charge
vii. C6 – Surrender risk capital charge

1. C1: Credit Risk and C3: Market Risk Capital Charges

The capital charge relating to assets is calculated by applying the risk factors to the value of specific items within the assets (see table below) for *Credit Risk* and *Market Risk*, with the exception of *Interest Rate risk*, *Credit Spread Risk* and *Currency Risk*.

Credit Risk (C1) includes Asset Default Risk and Counterparty Risk while Market Risk (C3) includes Interest Rate Risk, Equity Risk, Property Risk, Currency Risk, and Credit Spread Risks. Below are the assets and their respective capital risk charges:

1.1. Risk factors for **C1** and **C3** except interest rate risks, currency risk and credit spread risks.

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
Cash and Cash Equivalents			
• Cash on hand	0.0%	0.0%	0.0%

• Cash in banks
• Time Deposits (Including Investment Income Due and Accrued)

Risk Factors (2017)

Bank Rating	Risk factor
AAA to AA-	1.00%
A+ to A-	3.00%
BBB+ to BBB-	4.00%
BB+ to B-	7.50%
CCC or worse	22.50%
Unrated	
- In good standing	13.0%
- Others	22.50%

Risk Factors (2018)

Bank Rating	Risk factor
AAA to AA-	1.25%
A+ to A-	3.50%
BBB+ to BBB-	4.50%
BB+ to B-	9.00%
CCC or worse	24.00%
Unrated	
- In good standing	14.0%
- Others	24.0%

Risk Factors (2019 onwards)

Bank Rating	Risk factor
AAA to AA-	1.50%
A+ to A-	4.00%
BBB+ to BBB-	6.00%
BB+ to B-	12.00%
CCC or worse	25.00%
Unrated	
- In good standing	15.0%
- Others	25.0%

Premium Receivables

• Premium Due and Uncollected

Risk Factors (2017)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	3.3%	1.1%	0.4%	0.1%	0.1%
3 to 6 months	10.8%	3.7%	1.4%	0.7%	0.5%
6 to 9 months	25.1%	9.3%	4.3%	2.7%	2.2%
9 to 12 months	47.9%	19.7%	10.8%	8.0%	7.1%
12 to 15 months	78.3%	36.2%	22.9%	18.7%	17.4%
15 to 18 months	100.0%	58.2%	41.4%	36.1%	34.4%
More than 18 months	100.0%	81.8%	64.2%	58.6%	56.8%

Risk Factors (2018)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	4.0%	1.3%	0.4%	0.2%	0.1%
3 to 6 months	12.8%	4.3%	1.6%	0.8%	0.5%
6 to 9 months	29.6%	10.7%	4.8%	2.9%	2.3%
9 to 12 months	55.8%	22.2%	11.6%	8.3%	7.2%
12 to 15 months	90.1%	40.0%	24.1%	19.1%	17.5%
15 to 18 months	100.0%	62.9%	42.9%	36.5%	34.5%
More than 18 months	100.0%	86.8%	65.7%	59.1%	57.0%

Risk Factors (2019 onwards)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	5.20%	1.70%	0.60%	0.20%	0.10%
3 to 6 months	16.70%	5.60%	2.00%	0.90%	0.60%
6 to 9 months	38.20%	13.50%	5.60%	3.20%	2.40%
9 to 12 months	71.20%	27.10%	13.2%	8.80%	7.40%
12 to 15 months	100.0%	47.30%	26.4%	19.8%	17.8%
15 to 18 months	100.0%	72.10%	45.8%	37.4%	34.8%
More than 18 months	100.0%	96.40%	68.8%	60.0%	57.3%

Funds Due From/Held by Ceding Companies

- Due from Ceding Companies (Treaty & Facultative)
- Funds Held By Ceding Companies
- Loss Reserve Withheld by Ceding

Risk Factors (2017)

Counterparty Rating	Risk factor
AAA to AA-	1.00%
A+ to A-	3.00%
BBB+ to BBB-	4.00%
BB+ to B-	7.50%
CCC or worse	22.50%

Risk Factors (2018)

Counterparty Rating	Risk factor
AAA to AA-	1.25%
A+ to A-	3.50%
BBB+ to BBB-	4.50%
BB+ to B-	9.00%
CCC or worse	24.00%

Risk Factors (2019 onwards)

Counterparty Rating	Risk factor
AAA to AA-	1.50%
A+ to A-	4.00%
BBB+ to BBB-	6.00%
BB+ to B-	12.00%
CCC or worse	25.00%

<table>
<tr><th>Items</th><th>Risk Factors (2017)</th><th>Risk Factors (2018)</th><th>Risk Factors (2019 onwards)</th></tr>
<tr><td>Companies (Treaty & Facultative)</td>
<td><table><tr><td>Unrated
- In good standing
- Others</td><td>
13.0%
22.50%</td></tr></table></td>
<td><table><tr><td>Unrated
- In good standing
- Others</td><td>
14.0%
24.0%</td></tr></table></td>
<td><table><tr><td>Unrated
- In good standing
- Others</td><td>
15.0%
25.0%</td></tr></table></td></tr>
<tr><td colspan="4">Reinsurance Recoverable</td></tr>
<tr><td>• Amount Recoverable from Reinsurers (Paid & Unpaid Losses, treaty & Facultative)
• Other Reinsurance Accounts Receivable
• Surety Losses Recoverable</td>
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- In good standing
- Others</td><td>
15.0%
25.0%</td></tr></table></td></tr>
<tr><td colspan="4">Financial Assets (Designated at Fair Value through Profit & Loss, Held for Trading, Available for Sale, Held to Maturity) including investment income due and accrued</td></tr>
<tr><td>• Debt Securities – Government [1] - including allowance for impairment, if any – local and foreign currency</td><td>0.0%</td><td>0.0%</td><td>0.0%</td></tr>
<tr><td>• Debt securities – Private (Short term and Long term) – including allowance for impairment, if any.</td>
<td><table><tr><th>Counterparty Rating</th><th>Risk factor</th></tr><tr><td>AAA to AA-</td><td>1.00%</td></tr><tr><td>A+ to A-</td><td>3.00%</td></tr><tr><td>BBB+ to BBB-</td><td>4.00%</td></tr><tr><td>BB+ to B-</td><td>7.50%</td></tr></table></td>
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</table>

[1] Debt securities of the National Government which may be in local currency such as treasury bills and treasury notes, and include ROP bonds that are denominated in foreign currency.

<table>
<tr><th>Items</th><th>Risk Factors (2017)</th><th>Risk Factors (2018)</th><th>Risk Factors (2019 onwards)</th></tr>
<tr><td></td>
<td><table><tr><td>CCC or worse</td><td>22.50%</td></tr><tr><td>Unrated
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13.0%
22.50%</td></tr></table></td>
<td><table><tr><td>CCC or worse</td><td>24.00%</td></tr><tr><td>Unrated
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- Others</td><td>
14.0%
24.0%</td></tr></table></td>
<td><table><tr><td>CCC or worse</td><td>25.00%</td></tr><tr><td>Unrated
- In good standing
- Others</td><td>
15.0%
25.0%</td></tr></table></td></tr>
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<tr><td>Debt Securities
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- non-investment grade</td><td>
4.0%

7.5%</td></tr>
<tr><td>Shares</td><td>35.0%</td></tr>
<tr><td>Properties</td><td>19.0%</td></tr>
<tr><td>Balanced</td><td>*The balanced fund will pick up the highest risk factor of the securities under the fund.</td></tr>
<tr><td>Others</td><td>30.0%</td></tr></table></td>
<td><table><tr><th>Category</th><th>Risk factor</th></tr>
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<tr><td>Debt Securities
- investment grade
- non-investment grade</td><td>
4.5%

9.0%</td></tr>
<tr><td>Shares</td><td>40.0%</td></tr>
<tr><td>Properties</td><td>22.0%</td></tr>
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<tr><td>Debt Securities
- investment grade
- non-investment grade</td><td>
6.0%

12.0%</td></tr>
<tr><td>Shares</td><td>45.0%</td></tr>
<tr><td>Properties</td><td>25.0%</td></tr>
<tr><td>Balanced</td><td>*The balanced fund will pick up the highest risk factor of the securities under the fund.</td></tr>
<tr><td>Others</td><td>35.0%</td></tr></table></td></tr>
<tr><td>Real Estate or Property Investment trust</td><td>19.0%</td><td>22.0%</td><td>25.0%</td></tr>
<tr><td>Other funds/investments</td><td>30.0%</td><td>32.0%</td><td>35.0%</td></tr>
</table>

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
Derivative Assets Held for hedging	30.0%	32.0%	35.0%
Loans and Other Receivables (Including Investment Income Due and Accrued)			
• Policy Loans	0.0%	0.0%	0.0%

• Unquoted Debt Securities
• Real Estate Mortgage loans
• Collateral, Guaranteed, and Other Loans (including Housing Loans, Car Loans, Low Cost Housing and Salary Loans)

Risk Factors (2017)

Counterparty Rating	Risk factor
AAA to AA-	1.00%
A+ to A-	3.00%
BBB+ to BBB-	4.00%
BB+ to B-	7.50%
CCC or worse	22.50%
Unrated - In good standing - Others	 13.0% 22.50%

Risk Factors (2018)

Counterparty Rating	Risk factor
AAA to AA-	1.25%
A+ to A-	3.50%
BBB+ to BBB-	4.50%
BB+ to B-	9.00%
CCC or worse	24.00%
Unrated - In good standing - Others	14.00% 24.00%

Risk Factors (2019 onwards)

Counterparty Rating	Risk factor
AAA to AA-	1.50%
A+ to A-	4.00%
BBB+ to BBB-	6.00%
BB+ to B-	12.00%
CCC or worse	25.00%
Unrated - In good standing - Others	 15.0% 25.0%

• Notes Receivable, Sales Contract Receivables, Other Loan Receivables

Risk Factors (2017)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	3.3%	1.1%	0.4%	0.1%	0.1%
3 to 6 months	10.8%	3.7%	1.4%	0.7%	0.5%
6 to 9 months	25.1%	9.3%	4.3%	2.7%	2.2%
9 to 12 months	47.9%	19.7%	10.8%	8.0%	7.1%
12 to 15 months	78.3%	36.2%	22.9%	18.7%	17.4%
15 to 18 months	100.0%	58.2%	41.4%	36.1%	34.4%
More than 18 months	100.0%	81.8%	64.2%	58.6%	56.8%

Risk Factors (2018)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	4.0%	1.3%	0.4%	0.2%	0.1%
3 to 6 months	12.8%	4.3%	1.6%	0.8%	0.5%
6 to 9 months	29.6%	10.7%	4.8%	2.9%	2.3%
9 to 12 months	55.8%	22.2%	11.6%	8.3%	7.2%
12 to 15 months	90.1%	40.0%	24.1%	19.1%	17.5%
15 to 18 months	100.0%	62.9%	42.9%	36.5%	34.5%
More than 18 months	100.0%	86.8%	65.7%	59.1%	57.0%

Risk Factors (2019 onwards)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	5.20%	1.70%	0.60%	0.20%	0.10%
3 to 6 months	16.70%	5.60%	2.00%	0.90%	0.60%
6 to 9 months	38.20%	13.50%	5.60%	3.20%	2.40%
9 to 12 months	71.20%	27.10%	13.2%	8.80%	7.40%
12 to 15 months	100.0%	47.30%	26.4%	19.8%	17.8%
15 to 18 months	100.0%	72.10%	45.8%	37.4%	34.8%
More than 18 months	100.0%	96.40%	68.8%	60.0%	57.3%

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)

- Purchase money mortgages

Risk Factors (2017)

Counterparty Rating	Risk factor
AAA to AA-	1.00%
A+ to A-	3.00%
BBB+ to BBB-	4.00%
BB+ to B-	7.50%
CCC or worse	22.50%
Unrated	
- In good standing	13.0%
- Others	22.50%

Risk Factors (2018)

Counterparty Rating	Risk factor
AAA to AA-	1.25%
A+ to A-	3.50%
BBB+ to BBB-	4.50%
BB+ to B-	9.00%
CCC or worse	24.00%
Unrated	
- In good standing	14.00%
- Others	24.00%

Risk Factors (2019 onwards)

Counterparty Rating	Risk factor
AAA to AA-	1.50%
A+ to A-	4.00%
BBB+ to BBB-	6.00%
BB+ to B-	12.00%
CCC or worse	25.00%
Unrated	
- In good standing	15.0%
- Others	25.0%

- Accounts Receivables

Risk Factors (2017)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	3.3%	1.1%	0.4%	0.1%	0.1%
3 to 6 months	10.8%	3.7%	1.4%	0.7%	0.5%
6 to 9 months	25.1%	9.3%	4.3%	2.7%	2.2%
9 to 12 months	47.9%	19.7%	10.8%	8.0%	7.1%
12 to 15 months	78.3%	36.2%	22.9%	18.7%	17.4%
15 to 18 months	100.0%	58.2%	41.4%	36.1%	34.4%
More than 18 months	100.0%	81.8%	64.2%	58.6%	56.8%

Risk Factors (2018)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	4.0%	1.3%	0.4%	0.2%	0.1%
3 to 6 months	12.8%	4.3%	1.6%	0.8%	0.5%
6 to 9 months	29.6%	10.7%	4.8%	2.9%	2.3%
9 to 12 months	55.8%	22.2%	11.6%	8.3%	7.2%
12 to 15 months	90.1%	40.0%	24.1%	19.1%	17.5%
15 to 18 months	100.0%	62.9%	42.9%	36.5%	34.5%
More than 18 months	100.0%	86.8%	65.7%	59.1%	57.0%

Risk Factors (2019 onwards)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	5.20%	1.70%	0.60%	0.20%	0.10%
3 to 6 months	16.70%	5.60%	2.00%	0.90%	0.60%
6 to 9 months	38.20%	13.50%	5.60%	3.20%	2.40%
9 to 12 months	71.20%	27.10%	13.2%	8.80%	7.40%
12 to 15 months	100.0%	47.30%	26.4%	19.8%	17.8%
15 to 18 months	100.0%	72.10%	45.8%	37.4%	34.8%
More than 18 months	100.0%	96.40%	68.8%	60.0%	57.3%

- Accrued Dividend Receivable – Equity Securities – Common and Preferred

Risk Factors (2017)

Category	Risk factor
Listed	35%
Unlisted	50%

Risk Factors (2018)

Category	Risk factor
Listed	40%
Unlisted	55%

Risk Factors (2019 onwards)

Category	Risk factor
Listed	45%
Unlisted	60%

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
• Unearned interest income	see tables below	see tables below	see tables below

Unearned interest income – Risk Factors (2017)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	3.3%	1.1%	0.4%	0.1%	0.1%
3 to 6 months	10.8%	3.7%	1.4%	0.7%	0.5%
6 to 9 months	25.1%	9.3%	4.3%	2.7%	2.2%
9 to 12 months	47.9%	19.7%	10.8%	8.0%	7.1%
12 to 15 months	78.3%	36.2%	22.9%	18.7%	17.4%
15 to 18 months	100.0%	58.2%	41.4%	36.1%	34.4%
More than 18 months	100.0%	81.8%	64.2%	58.6%	56.8%

Unearned interest income – Risk Factors (2018)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	4.0%	1.3%	0.4%	0.2%	0.1%
3 to 6 months	12.8%	4.3%	1.6%	0.8%	0.5%
6 to 9 months	29.6%	10.7%	4.8%	2.9%	2.3%
9 to 12 months	55.8%	22.2%	11.6%	8.3%	7.2%
12 to 15 months	90.1%	40.0%	24.1%	19.1%	17.5%
15 to 18 months	100.0%	62.9%	42.9%	36.5%	34.5%
More than 18 months	100.0%	86.8%	65.7%	59.1%	57.0%

Unearned interest income – Risk Factors (2019 onwards)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	5.20%	1.70%	0.60%	0.20%	0.10%
3 to 6 months	16.70%	5.60%	2.00%	0.90%	0.60%
6 to 9 months	38.20%	13.50%	5.60%	3.20%	2.40%
9 to 12 months	71.20%	27.10%	13.2%	8.80%	7.40%
12 to 15 months	100.0%	47.30%	26.4%	19.8%	17.8%
15 to 18 months	100.0%	72.10%	45.8%	37.4%	34.8%
More than 18 months	100.0%	96.40%	68.8%	60.0%	57.3%

Investments in Subsidiaries, Associates and Joint Ventures

Items: • Investment in Subsidiaries • Investment in Associates • Investment in Joint Ventures

Risk Factors (2017)

Category	Risk factor
Insurance-related and IC-regulated*	0%
Non insurance-related or non IC-regulated	50%

* Only Excess Capital is treated as capital for the parent company

Risk Factors (2018)

Category	Risk factor
Insurance-related and IC-regulated*	0%
Non insurance-related or non IC-regulated	55%

* Only Excess Capital is treated as capital for the parent company

Risk Factors (2019 onwards)

Category	Risk factor
Insurance-related and IC-regulated*	0%
Non insurance-related or non IC-regulated	60%

* Only Excess Capital is treated as capital for the parent company

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
Segregated Fund Assets			
• Segregated Fund Assets	0.0%	0.0%	0.0%
Property and Equipment			
• Land and buildings (and building improvements occupied or leased by the insurer) – including accumulated depreciation, revaluation increment and accumulated impairment loss.	19.0% (occupied within and above the quota, foreclosed)	22.0% (occupied within and above the quota, foreclosed)	25.0% (occupied within and above the quota, foreclosed)

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
• Leasehold improvements	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)
• Equipment (including IT systems, transportation, office furniture and fixtures)	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)
• Investment Property	19.0%	22.0%	25.0%
Other assets			
Non-current Assets Held for Sale	19.0%	22.0%	25.0%
Receivable from Life Insurance Pools	0.0%	0.0%	0.0%
Subscription Receivable	0.0%	0.0%	0.0%
Security Fund Contribution			
Pension Asset	0.0%	0.0%	0.0%
Deferred Acquisition Costs	0.0%	0.0%	0.0%
Deferred Reinsurance Premiums	0.0%	0.0%	0.0%
Deferred Income Tax Assets	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)
Prepaid or Deferred Charges	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)
Goodwill and Intangible Assets	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)
Advances to Officers, Employees,	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
agents and etc. (Other than policy loans)			
Other Assets and Investments	30.0%	32.0%	35.0%

1.2. C3: Market Risks (Interest Rate Risks)

To calculate the interest rate mismatch risk requirement, companies must compute the cash-flows of fixed interest income assets and insurance liabilities. Cash-flows for assets and liabilities that are not sensitive to interest rates, such as fixed deposits without guaranteed interest, floating rate bonds, equities and non-guaranteed liabilities, are not included in the calculation of the interest rate risk charge and included in the Risks related to Assets.

An upward and downward interest rate adjustment (or 'shock') is applied to the risk free interest rate yield curve[2] to arrive at the increasing and decreasing interest rate scenarios respectively. The risk free interest rate yield curve will be provided by the IC every quarter.

The 'shocked' term structures are derived by multiplying the risk free interest rate yield curve by (1 + shock up factor) and (1 – shock down factor), where the upward and downward shock factor for each maturity 't' are specified in table below.

Under the base scenario, the present value of net insurance liabilities and fixed interest income assets exposures is computed using the risk free interest rate yield curve. The present value of net insurance liabilities and fixed interest income asset exposures are then re-computed under the increasing and decreasing interest rate scenarios. Under each scenario, the value of surplus is computed as the difference between the present value of the assets and liabilities.

The interest rate risk charge is taken as the absolute of the larger of the reduction in surplus from the downward interest rate scenario and the upward interest rate scenario. Below are the risk factors:

Risks related to interest mismatch (Philippine Peso)

[2] The risk-free interest rate yield curve is published by the IC on a quarterly basis for valuation purposes.

Shock-up Rates:

Maturity (Year)	2017	2018	2019 onwards
0.25	177%	182%	188%
0.50	160%	164%	169%
0.75	142%	147%	152%
1	125%	130%	135%
2	53%	56%	59%
3	55%	57%	59%
4	53%	53%	55%
5	51%	52%	54%
6	51%	52%	54%
7	51%	52%	54%
8	51%	52%	54%
9	51%	52%	54%
10	51%	52%	54%
11-20	48%	49%	51%
21 and above	48%	49%	51%

Shock-down Rates

Maturity (Year)	2017	2018	2019 onwards
0.25	100%	100%	100%
0.50	100%	100%	100%
0.75	100%	100%	100%
1	100%	100%	100%
2	53%	56%	59%
3	55%	57%	59%
4	51%	53%	55%
5	50%	52%	54%
6	50%	52%	54%
7	51%	52%	54%
8	51%	52%	54%
9	51%	52%	54%
10	51%	52%	54%
11-20	48%	49%	51%
21 and above	48%	49%	51%

Risks related to interest mismatch (USD)

Shock-up Rates:

Maturity (Year)	2017	2018	2019 onwards
0.25	82%	85%	88%
0.50	82%	85%	88%
0.75	82%	85%	88%
1	82%	85%	88%
2	75%	78%	82%
3	68%	71%	75%
4	58%	60%	63%
5	51%	53%	56%
6	45%	47%	49%
7	40%	41%	43%
8	34%	35%	37%
9	28%	29%	31%
10	30%	31%	32%
11-20	31%	32%	33%
21 and above	28%	29%	30%

Shock-down Rates:

Maturity (Year)	2017	2018	2019 onwards
0.25	82%	85%	88%
0.50	82%	85%	88%
0.75	82%	85%	88%
1	82%	85%	88%
2	75%	78%	82%
3	68%	71%	75%
4	58%	60%	63%
5	51%	53%	56%
6	45%	47%	49%
7	40%	41%	43%
8	34%	35%	37%
9	28%	29%	31%
10	30%	31%	32%
11-20	31%	32%	33%
21 and above	28%	29%	30%

1.3. C3: Market Risks (Currency Risks)

The exposure to currencies other than Philippine Peso ('PHP') is subject to a currency risk charge on the net exposure.

To calculate the capital charge for currency risk, the net exposure including all foreign currency asset items less foreign currency liabilities, in PHP, is multiplied by a currency risk charge by a factor.

All amounts in a foreign currency should be converted to PHP at the exchange rate at the end of the reporting period. Below are the risks factors:

Currency	Risk factors (2017)	Risk factors (2018)	Risk factors (2019 onwards)
PHP/USD	9%	9%	10%
PHP/JPY	14%	15%	17%
Others	14%	15%	17%

1.4. C3: Market Risks (Credit spread risk)

The average credit spread in excess of the risk free interest rates for the interest rate sensitive and credit risk bearing assets must be identified before calculating the credit spread risk requirement. The spread is used to determine a 'risky' yield curve by adding the average credit spread to the risk free interest rate yield curve. The present value of the assets and liabilities is then revalued using the 'risky' yield curve. Similar to the interest rate risk charge, the resulting largest absolute fall in value of the surplus will be taken as the credit spread risk charge.

2. C2: Insurance Risks (Risks relating to life insurance liabilities)

The insurance liability risk charge is taken as the market value of liabilities under RBC Stress scenario minus the market value of liabilities under the Interim Stress scenario. Details of the scenarios are described as follows.

1. Unpadded Scenario

Insurers must project their net liability cash-flows under an Unpadded Scenario using central estimate assumptions, without non-guaranteed benefits.

2. Additional Reserves

Information regarding Additional Reserves arising from the *Margin for Adverse Deviation* ('MfAD') as specified in the valuation standard circular and value of non-guaranteed benefits, such as policy dividends is also required for computation of the Total Reported Reserves.

3. Interim Stress Scenario

Under the Interim Stress Scenario, insurers will be required to project the net liability cash flows on a central estimate plus MfAD of 10% on all assumptions except discount rate.

4. RBC stress scenario

The fixed margin for adverse deviation to be used to project the net liability cash-flows under an RBC Stress Scenario is provided in the table below.

The scenarios will be discounted using the discount rates for a Gross Premium Valuation ('GPV') of life insurance policy reserves as prescribed by the IC.

The difference between the Interim Stress scenario and Unpadded scenario plus MfAD and is considered as an *Asset Liability Matching* ('ALM') adjustment under the Interest Rate Risk Charge (see 1.2. C3: Interest Risk Charge as discussed above)

Assumption	Risk factors (2017)	Risk factors (2018)	Risk factors (2019 onwards)
Interest	N/A	N/A	N/A
Mortality	+/-18%	+/-20%	+/-25%
Lapse	+/-25%	+/-30%	+/-40%
Expenses	+/-15%	+/-16%	+/-20%
Inflation	N/A	N/A	N/A
Other/Morbidity	+/-18%	+/-20%	+/-25%

A. Mortality (positive mortality risk)

Mortality risk reflects the uncertainty in the liability cash-flows due to the incidence of death. The stress factor for mortality risk should reflect the uncertainty in mortality parameters as a result of mis-estimation and/or changes in the level, trend and volatility of mortality rates and capture the risk that more policyholders than anticipated die during the policy term.

Mortality risk is applicable for insurance obligations contingent on mortality, where the technical provision (reserve) is assumed lower than the amounts payable. This means that an increase in mortality rates leads to an increase in the technical provisions (reserves). The risk is captured by increasing the mortality rates by a proportion of the base mortality rates.

B. Longevity risk (negative mortality risk)

The risk charge for longevity reflects the uncertainty in mortality parameters as a result of mis-estimation and/or changes in the level, trend and volatility of mortality rates and captures the risk of policyholders living longer than anticipated. The consequence of the fact that people live longer than expected is that the liabilities will increase.

C. Lapse risk

The risk charge for lapse risk reflects the adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals, and surrenders.

D. Expenses

Expense risk arises from the variation in the expenses incurred in servicing insurance or reinsurance contracts. Risk of the change of expenses is expected to predominantly arise from staff costs, cost of commissions to sales intermediaries (on the basis of the contractual terms of the arrangements), cost of IT infrastructure, cost of land and buildings occupied. The capital requirement for expense risk is assumed that there is no material increase due to other sources other than inflation in the expenses incurred in servicing life insurance obligations, and where the projected cash-flows follow a certain pattern.

E. Other (morbidity etc.)

The risk factors for disability/morbidity risk reflect the risk that more policyholders than anticipated become disabled or sick during the policy term (inception risk), and that recovery rates are longer than expected (recovery risk).

5. C4: Operational Risks (Risks relating to Operations)

One percent **(1%)** is applied on gross premium income or net policy liabilities, whichever is greater, and is subject to cap of 10% of the total risk requirements.

6. C5: Catastrophe Risks Capital Charge (Risks relating to Catastrophe)

The risk factor for catastrophe risk is **0.0% for 2017, 0.005% for 2018 and 0.075% for 2019 onwards**, of the total capital at risk.

The capital at risk is derived as follows:

$$Capital\ at\ risk_i = (SA_i + AB_i\ x\ Annuity\ factor - L_i)$$

The total required capital for 2017 as follows:

$$Required\ capital = \sum_i Capital\ at\ risk_i\ x\ 0.00000$$

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The total required capital for 2018 is determined as follows:

$$Required\ capital = \sum_i Capital\ at\ risk_i\ x\ 0.00005$$

The total required capital for 2019 onwards is determined as follows:

$$Required\ capital = \sum_i Capital\ at\ risk_i\ x\ 0.00075$$

Where:

- SA_i = Net Sum Assured on death for each policy i
- AB_i = Net annualised amount of benefit on death for each policy i
- Annuity factor = Average annuity factor for the expected duration over which benefits may be payable in the event of a claim
- L_i = Net liability for each policy i.

The underlying assumptions for the life catastrophe risk can be summarized as follows:

- Life catastrophe risk is restricted to obligations that are contingent on mortality i.e. where an increase in mortality leads to an increase in liabilities;

- Products with negative mortality risk such as annuities, where the increase in mortality leads to a reduction in technical provisions, can be taken into account only if age diversification is applied. This as some diseases are age discriminative, for instance because influenza in the past might have given older generations protection.

7. C6: Surrender Risks (Surrender Risk Capital Charge for life insurance)

The *Surrender Risk Capital Charge* (SRCC) aims to address lapse risk in excess of the levels assumed in the calculation of reserves and risk margin. For each of the participating and non-participating life insurance funds, SRCC is defined as the maximum of:

- Aggregate surrender value of the business in force in respect of policies in the insurance fund less the aggregate policy reserves of the insurance fund; or
- Zero.

The RBC requirement will equal the SRCC in the event that it is more than $\sqrt{C1^2 + C2^2 + C3\ Equities^2 + C3\ Others^2 + C5^2} + C4$.

ANNEX B

DETERMINATION OF RISK BASED CAPITAL REQUIREMENTS FOR NON-LIFE INSURANCE COMPANIES

The formula for non-life insurance RBC requirement is as follows:

$$RBC\ Requirement = \sqrt{R1^2 + R2^2 + R3\ Equities^2 + R3\ Others^2 + R5^2} + R4$$

a) The components of the non-life RBC requirement are:

   i. R1 – Credit risk capital charge
   ii. R2 – Insurance risk capital charge
   iii. R3 Equities – Market risk capital charge for equities
   iv. R3 Others – Market risk capital charge for other than equities
   v. R4 – Operational risk capital charge
   vi. R5 – Catastrophe risk capital charge

1. R1: Credit Risk and R3: Market Risk Capital Charges

The capital charge relating to assets is calculated by applying the risk factors to the value of specific items within the assets (see table below) for *Credit Risk* and *Market Risk*, with the exception of *Interest Rate risk*, *Credit Spread Risk* and *Currency Risk*.

Credit Risk (R1) includes Asset Default Risk and Counterparty Risk while Market Risk (R3) includes Interest Rate Risk, Equity Risk, Property Risk, Currency Risk, and Credit Spread Risks. Below are the assets and their respective capital risk charges:

1.1. Risk factors for **R1** and **R3** except interest rate risks, currency risk and credit spread risks.

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)

Cash and Cash Equivalents

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
• Cash on hand	0.0%	0.0%	0.0%

• Cash in banks
• Time Deposits (Including Investment Income Due and Accrued)

Risk Factors (2017)

Bank Rating	Risk factor
AAA to AA-	1.00%
A+ to A-	3.00%
BBB+ to BBB-	4.00%
BB+ to B-	7.50%
CCC or worse	22.50%
Unrated	
- In good standing	13.0%
- Others	22.50%

Risk Factors (2018)

Bank Rating	Risk factor
AAA to AA-	1.25%
A+ to A-	3.50%
BBB+ to BBB-	4.50%
BB+ to B-	9.00%
CCC or worse	24.00%
Unrated	
- In good standing	14.0%
- Others	24.0%

Risk Factors (2019 onwards)

Bank Rating	Risk factor
AAA to AA-	1.50%
A+ to A-	4.00%
BBB+ to BBB-	6.00%
BB+ to B-	12.00%
CCC or worse	25.00%
Unrated	
- In good standing	15.0%
- Others	25.0%

Premium Receivables

• Premium Due and Uncollected

Risk Factors (2017)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	3.3%	1.1%	0.4%	0.1%	0.1%
3 to 6 months	10.8%	3.7%	1.4%	0.7%	0.5%
6 to 9 months	25.1%	9.3%	4.3%	2.7%	2.2%
9 to 12 months	47.9%	19.7%	10.8%	8.0%	7.1%
12 to 15 months	78.3%	36.2%	22.9%	18.7%	17.4%
15 to 18 months	100.0%	58.2%	41.4%	36.1%	34.4%
More than 18 months	100.0%	81.8%	64.2%	58.6%	56.8%

Risk Factors (2018)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	4.0%	1.3%	0.4%	0.2%	0.1%
3 to 6 months	12.8%	4.3%	1.6%	0.8%	0.5%
6 to 9 months	29.6%	10.7%	4.8%	2.9%	2.3%
9 to 12 months	55.8%	22.2%	11.6%	8.3%	7.2%
12 to 15 months	90.1%	40.0%	24.1%	19.1%	17.5%
15 to 18 months	100.0%	62.9%	42.9%	36.5%	34.5%
More than 18 months	100.0%	86.8%	65.7%	59.1%	57.0%

Risk Factors (2019 onwards)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	5.20%	1.70%	0.60%	0.20%	0.10%
3 to 6 months	16.70%	5.60%	2.00%	0.90%	0.60%
6 to 9 months	38.20%	13.50%	5.60%	3.20%	2.40%
9 to 12 months	71.20%	27.10%	13.2%	8.80%	7.40%
12 to 15 months	100.0%	47.30%	26.4%	19.8%	17.8%
15 to 18 months	100.0%	72.10%	45.8%	37.4%	34.8%
More than 18 months	100.0%	96.40%	68.8%	60.0%	57.3%

Funds Due From/Held by Ceding Companies

• Due from Ceding Companies (Treaty & Facultative)
• Funds Held By Ceding Companies
• Loss Reserve Withheld by Ceding

Risk Factors (2017)

Counterparty Rating	Risk factor
AAA to AA-	1.00%
A+ to A-	3.00%
BBB+ to BBB-	4.00%
BB+ to B-	7.50%
CCC or worse	22.50%

Risk Factors (2018)

Counterparty Rating	Risk factor
AAA to AA-	1.25%
A+ to A-	3.50%
BBB+ to BBB-	4.50%
BB+ to B-	9.00%
CCC or worse	24.00%

Risk Factors (2019 onwards)

Counterparty Rating	Risk factor
AAA to AA-	1.50%
A+ to A-	4.00%
BBB+ to BBB-	6.00%
BB+ to B-	12.00%
CCC or worse	25.00%

Items	Counterparty Rating	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
Companies (Treaty & Facultative)	Unrated			
	- In good standing	13.0%	14.0%	15.0%
	- Others	22.50%	24.0%	25.0%
Reinsurance Recoverable				
• Amount Recoverable from Reinsurers (Paid & Unpaid Losses, treaty & Facultative) • Other Reinsurance Accounts Receivable • Surety Losses Recoverable	**Counterparty Rating**	**Risk factor**	**Risk factor**	**Risk factor**
	AAA to AA-	1.00%	1.25%	1.50%
	A+ to A-	3.00%	3.50%	4.00%
	BBB+ to BBB-	4.00%	4.50%	6.00%
	BB+ to B-	7.50%	9.00%	12.00%
	CCC or worse	22.50%	24.00%	25.00%
	Unrated			
	- In good standing	13.0%	14.0%	15.0%
	- Others	22.50%	24.0%	25.0%
Financial Assets (Designated at Fair Value through Profit & Loss, Held for Trading, Available for Sale, Held to Maturity) including investment income due and accrued				
• Debt Securities – Government [1] - including allowance for impairment, if any – local and foreign currency		0.0%	0.0%	0.0%
• Debt securities – Private (Short term and Long term) – including allowance for impairment, if any.	**Counterparty Rating**	**Risk factor**	**Risk factor**	**Risk factor**
	AAA to AA-	1.00%	1.25%	1.50%
	A+ to A-	3.00%	3.50%	4.00%
	BBB+ to BBB-	4.00%	4.50%	6.00%
	BB+ to B-	7.50%	9.00%	12.00%

[1] Debt securities of the National Government which may be in local currency such as treasury bills and treasury notes, and include ROP bonds that are denominated in foreign currency.

Items	Category	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
	CCC or worse	22.50%	24.00%	25.00%
	Unrated - In good standing	13.0%	14.0%	15.0%
	Unrated - Others	22.50%	24.0%	25.0%
• Equity securities or Stocks – common and preferred	Listed	35%	40%	45%
	Unlisted	50%	55%	60%
Mutual funds and unit investment trust	Government Securities (local and foreign currency)	0.0%	0.0%	0.0%
	Money market instruments, including cash	4.0%	4.5%	6.0%
	Debt Securities - investment grade	4.0%	4.5%	6.0%
	Debt Securities - non-investment grade	7.5%	9.0%	12.0%
	Shares	35.0%	40.0%	45.0%
	Properties	19.0%	22.0%	25.0%
	Balanced	*The balanced fund will pick up the highest risk factor of the securities under the fund.	*The balanced fund will pick up the highest risk factor of the securities under the fund.	*The balanced fund will pick up the highest risk factor of the securities under the fund.
	Others	30.0%	32.0%	35.0%
Real Estate or Property Investment trust		19.0%	22.0%	25.0%
Other funds/investments		30.0%	32.0%	35.0%

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
Derivative Assets Held for hedging	30.0%	32.0%	35.0%
Loans and Other Receivables (Including Investment Income Due and Accrued)			
• Policy Loans	0.0%	0.0%	0.0%
• Unquoted Debt Securities • Real Estate Mortgage loans • Collateral, Guaranteed, and Other Loans (including Housing Loans, Car Loans, Low Cost Housing and Salary Loans)	See Counterparty Rating table (2017) below	See Counterparty Rating table (2018) below	See Counterparty Rating table (2019 onwards) below
• Notes Receivable, Sales Contract Receivables, Other Loan Receivables	See Aging Periods table (2017) below	See Aging Periods table (2018) below	See Aging Periods table (2019 onwards) below

Risk Factors (2017) – Unquoted Debt Securities, Real Estate Mortgage loans, Collateral, Guaranteed, and Other Loans

Counterparty Rating	Risk factor
AAA to AA-	1.00%
A+ to A-	3.00%
BBB+ to BBB-	4.00%
BB+ to B-	7.50%
CCC or worse	22.50%
Unrated	
- In good standing	13.0%
- Others	22.50%

Risk Factors (2018) – Unquoted Debt Securities, Real Estate Mortgage loans, Collateral, Guaranteed, and Other Loans

Counterparty Rating	Risk factor
AAA to AA-	1.25%
A+ to A-	3.50%
BBB+ to BBB-	4.50%
BB+ to B-	9.00%
CCC or worse	24.00%
Unrated	
- In good standing	14.00%
- Others	24.00%

Risk Factors (2019 onwards) – Unquoted Debt Securities, Real Estate Mortgage loans, Collateral, Guaranteed, and Other Loans

Counterparty Rating	Risk factor
AAA to AA-	1.50%
A+ to A-	4.00%
BBB+ to BBB-	6.00%
BB+ to B-	12.00%
CCC or worse	25.00%
Unrated	
- In good standing	15.0%
- Others	25.0%

Risk Factors (2017) – Notes Receivable, Sales Contract Receivables, Other Loan Receivables

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	3.3%	1.1%	0.4%	0.1%	0.1%
3 to 6 months	10.8%	3.7%	1.4%	0.7%	0.5%
6 to 9 months	25.1%	9.3%	4.3%	2.7%	2.2%
9 to 12 months	47.9%	19.7%	10.8%	8.0%	7.1%
12 to 15 months	78.3%	36.2%	22.9%	18.7%	17.4%
15 to 18 months	100.0%	58.2%	41.4%	36.1%	34.4%
More than 18 months	100.0%	81.8%	64.2%	58.6%	56.8%

Risk Factors (2018) – Notes Receivable, Sales Contract Receivables, Other Loan Receivables

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	4.0%	1.3%	0.4%	0.2%	0.1%
3 to 6 months	12.8%	4.3%	1.6%	0.8%	0.5%
6 to 9 months	29.6%	10.7%	4.8%	2.9%	2.3%
9 to 12 months	55.8%	22.2%	11.6%	8.3%	7.2%
12 to 15 months	90.1%	40.0%	24.1%	19.1%	17.5%
15 to 18 months	100.0%	62.9%	42.9%	36.5%	34.5%
More than 18 months	100.0%	86.8%	65.7%	59.1%	57.0%

Risk Factors (2019 onwards) – Notes Receivable, Sales Contract Receivables, Other Loan Receivables

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	5.20%	1.70%	0.60%	0.20%	0.10%
3 to 6 months	16.70%	5.60%	2.00%	0.90%	0.60%
6 to 9 months	38.20%	13.50%	5.60%	3.20%	2.40%
9 to 12 months	71.20%	27.10%	13.2%	8.80%	7.40%
12 to 15 months	100.0%	47.30%	26.4%	19.8%	17.8%
15 to 18 months	100.0%	72.10%	45.8%	37.4%	34.8%
More than 18 months	100.0%	96.40%	68.8%	60.0%	57.3%

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)

- Purchase money mortgages

Risk Factors (2017)

Counterparty Rating	Risk factor
AAA to AA-	1.00%
A+ to A-	3.00%
BBB+ to BBB-	4.00%
BB+ to B-	7.50%
CCC or worse	22.50%
Unrated	
- In good standing	13.0%
- Others	22.50%

Risk Factors (2018)

Counterparty Rating	Risk factor
AAA to AA-	1.25%
A+ to A-	3.50%
BBB+ to BBB-	4.50%
BB+ to B-	9.00%
CCC or worse	24.00%
Unrated	
- In good standing	14.00%
- Others	24.00%

Risk Factors (2019 onwards)

Counterparty Rating	Risk factor
AAA to AA-	1.50%
A+ to A-	4.00%
BBB+ to BBB-	6.00%
BB+ to B-	12.00%
CCC or worse	25.00%
Unrated	
- In good standing	15.0%
- Others	25.0%

- Accounts Receivables

Risk Factors (2017)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	3.3%	1.1%	0.4%	0.1%	0.1%
3 to 6 months	10.8%	3.7%	1.4%	0.7%	0.5%
6 to 9 months	25.1%	9.3%	4.3%	2.7%	2.2%
9 to 12 months	47.9%	19.7%	10.8%	8.0%	7.1%
12 to 15 months	78.3%	36.2%	22.9%	18.7%	17.4%
15 to 18 months	100.0%	58.2%	41.4%	36.1%	34.4%
More than 18 months	100.0%	81.8%	64.2%	58.6%	56.8%

Risk Factors (2018)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	4.0%	1.3%	0.4%	0.2%	0.1%
3 to 6 months	12.8%	4.3%	1.6%	0.8%	0.5%
6 to 9 months	29.6%	10.7%	4.8%	2.9%	2.3%
9 to 12 months	55.8%	22.2%	11.6%	8.3%	7.2%
12 to 15 months	90.1%	40.0%	24.1%	19.1%	17.5%
15 to 18 months	100.0%	62.9%	42.9%	36.5%	34.5%
More than 18 months	100.0%	86.8%	65.7%	59.1%	57.0%

Risk Factors (2019 onwards)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	5.20%	1.70%	0.60%	0.20%	0.10%
3 to 6 months	16.70%	5.60%	2.00%	0.90%	0.60%
6 to 9 months	38.20%	13.50%	5.60%	3.20%	2.40%
9 to 12 months	71.20%	27.10%	13.2%	8.80%	7.40%
12 to 15 months	100.0%	47.30%	26.4%	19.8%	17.8%
15 to 18 months	100.0%	72.10%	45.8%	37.4%	34.8%
More than 18 months	100.0%	96.40%	68.8%	60.0%	57.3%

- Accrued Dividend Receivable – Equity Securities – Common and Preferred

Risk Factors (2017)

Category	Risk factor
Listed	35%
Unlisted	50%

Risk Factors (2018)

Category	Risk factor
Listed	40%
Unlisted	55%

Risk Factors (2019 onwards)

Category	Risk factor
Listed	45%
Unlisted	60%

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
• Unearned interest income	See tables below	See tables below	See tables below

Unearned interest income – Risk Factors (2017)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	3.3%	1.1%	0.4%	0.1%	0.1%
3 to 6 months	10.8%	3.7%	1.4%	0.7%	0.5%
6 to 9 months	25.1%	9.3%	4.3%	2.7%	2.2%
9 to 12 months	47.9%	19.7%	10.8%	8.0%	7.1%
12 to 15 months	78.3%	36.2%	22.9%	18.7%	17.4%
15 to 18 months	100.0%	58.2%	41.4%	36.1%	34.4%
More than 18 months	100.0%	81.8%	64.2%	58.6%	56.8%

Unearned interest income – Risk Factors (2018)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	4.0%	1.3%	0.4%	0.2%	0.1%
3 to 6 months	12.8%	4.3%	1.6%	0.8%	0.5%
6 to 9 months	29.6%	10.7%	4.8%	2.9%	2.3%
9 to 12 months	55.8%	22.2%	11.6%	8.3%	7.2%
12 to 15 months	90.1%	40.0%	24.1%	19.1%	17.5%
15 to 18 months	100.0%	62.9%	42.9%	36.5%	34.5%
More than 18 months	100.0%	86.8%	65.7%	59.1%	57.0%

Unearned interest income – Risk Factors (2019 onwards)

Aging Periods/ Outstanding Accounts	1	10	100	1000	10000
Less than 3 months	5.20%	1.70%	0.60%	0.20%	0.10%
3 to 6 months	16.70%	5.60%	2.00%	0.90%	0.60%
6 to 9 months	38.20%	13.50%	5.60%	3.20%	2.40%
9 to 12 months	71.20%	27.10%	13.2%	8.80%	7.40%
12 to 15 months	100.0%	47.30%	26.4%	19.8%	17.8%
15 to 18 months	100.0%	72.10%	45.8%	37.4%	34.8%
More than 18 months	100.0%	96.40%	68.8%	60.0%	57.3%

Investments in Subsidiaries, Associates and Joint Ventures

- Investment in Subsidiaries
- Investment in Associates
- Investment in Joint Ventures

Category	Risk factor (2017)	Risk factor (2018)	Risk factor (2019 onwards)
Insurance-related and IC-regulated*	0%	0%	0%
Non insurance-related or non IC-regulated	50%	55%	60%

* Only Excess Capital is treated as capital for the parent company

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
Segregated Fund Assets			
• Segregated Fund Assets	0.0%	0.0%	0.0%
Property and Equipment			
• Land and buildings (and building improvements occupied or leased by the insurer) – including accumulated depreciation, revaluation increment and accumulated impairment loss.	19.0% (occupied within and above the quota, foreclosed)	22.0% (occupied within and above the quota, foreclosed)	25.0% (occupied within and above the quota, foreclosed)

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
• Leasehold improvements	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)
• Equipment (including IT systems, transportation, office furniture and fixtures)	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)
• Investment Property	19.0%	22.0%	25.0%
Other assets			
Non-current Assets Held for Sale	19.0%	22.0%	25.0%
Receivable from Life Insurance Pools	0.0%	0.0%	0.0%
Subscription Receivable Security Fund Contribution	0.0%	0.0%	0.0%
Pension Asset	0.0%	0.0%	0.0%
Deferred Acquisition Costs	0.0%	0.0%	0.0%
Deferred Reinsurance Premiums	0.0%	0.0%	0.0%
Deferred Income Tax Assets	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)
Prepaid or Deferred Charges	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)
Goodwill and Intangible Assets	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)
Advances to Officers, Employees, agents and etc. (Other than policy loans)	N/A (Deduct from capital)	N/A (Deduct from capital)	N/A (Deduct from capital)

Items	Risk Factors (2017)	Risk Factors (2018)	Risk Factors (2019 onwards)
Other Assets and Investments	30.0%	32.0%	35.0%

1.2. R3: Market Risks (Interest Rate Risks)

To calculate the interest rate mismatch risk requirement, companies must compute the cash-flows of fixed interest income assets and insurance liabilities. Cash-flows for assets and liabilities that are not sensitive to interest rates, such as fixed deposits without guaranteed interest, floating rate bonds, equities and non-guaranteed liabilities, are not included in the calculation of the interest rate risk charge and included in the Risks related to Assets.

An upward and downward interest rate adjustment (or 'shock') is applied to the risk free interest rate yield curve[2] to arrive at the increasing and decreasing interest rate scenarios respectively. The risk free interest rate yield curve will be provided by the IC every quarter.

The 'shocked' term structures are derived by multiplying the risk free interest rate yield curve by (1 + shock up factor) and (1 – shock down factor), where the upward and downward shock factor for each maturity 't' are specified in table below.

Under the base scenario, the present value of net insurance liabilities and fixed interest income assets exposures is computed using the risk free interest rate yield curve. The present value of net insurance liabilities and fixed interest income asset exposures are then re-computed under the increasing and decreasing interest rate scenarios. Under each scenario, the value of surplus is computed as the difference between the present value of the assets and liabilities.

The interest rate risk charge is taken as the absolute of the larger of the reduction in surplus from the downward interest rate scenario and the upward interest rate scenario. Below are the risk factors:

Risks related to interest mismatch (Philippine Peso)

[2] The risk-free interest rate yield curve is published by the IC on a quarterly basis for valuation purposes.

Shock-up Rates:

Maturity (Year)	2017	2018	2019 onwards
0.25	177%	182%	188%
0.50	160%	164%	169%
0.75	142%	147%	152%
1	125%	130%	135%
2	53%	56%	59%
3	55%	57%	59%
4	53%	53%	55%
5	51%	52%	54%
6	51%	52%	54%
7	51%	52%	54%
8	51%	52%	54%
9	51%	52%	54%
10	51%	52%	54%
11-20	48%	49%	51%
21 and above	48%	49%	51%

Shock-down Rates

Maturity (Year)	2017	2018	2019 onwards
0.25	100%	100%	100%
0.50	100%	100%	100%
0.75	100%	100%	100%
1	100%	100%	100%
2	53%	56%	59%
3	55%	57%	59%
4	51%	53%	55%
5	50%	52%	54%
6	50%	52%	54%
7	51%	52%	54%
8	51%	52%	54%
9	51%	52%	54%
10	51%	52%	54%
11-20	48%	49%	51%
21 and above	48%	49%	51%

Risks related to interest mismatch (USD)

Shock-up Rates:

Maturity (Year)	2017	2018	2019 onwards
0.25	82%	85%	88%
0.50	82%	85%	88%
0.75	82%	85%	88%
1	82%	85%	88%
2	75%	78%	82%
3	68%	71%	75%
4	58%	60%	63%
5	51%	53%	56%
6	45%	47%	49%
7	40%	41%	43%
8	34%	35%	37%
9	28%	29%	31%
10	30%	31%	32%
11-20	31%	32%	33%
21 and above	28%	29%	30%

Shock-down Rates:

Maturity (Year)	2017	2018	2019 onwards
0.25	82%	85%	88%
0.50	82%	85%	88%
0.75	82%	85%	88%
1	82%	85%	88%
2	75%	78%	82%
3	68%	71%	75%
4	58%	60%	63%
5	51%	53%	56%
6	45%	47%	49%
7	40%	41%	43%
8	34%	35%	37%
9	28%	29%	31%
10	30%	31%	32%
11-20	31%	32%	33%
21 and above	28%	29%	30%

1.3. R3: Market Risks (Currency Risks)

The exposure to currencies other than Philippine Peso ('PHP') is subject to a currency risk charge on the net exposure.

To calculate the capital charge for currency risk, the net exposure including all foreign currency asset items less foreign currency liabilities, in PHP, is multiplied by a currency risk charge by a factor.

All amounts in a foreign currency should be converted to PHP at the exchange rate at the end of the reporting period. Below are the risks factors:

Currency	Risk factors (2017)	Risk factors (2018)	Risk factors (2019 onwards)
PHP/USD	9%	9%	10%
PHP/JPY	14%	15%	17%
Others	14%	15%	17%

1.4. R3: Market Risks (Credit spread risk)

The average credit spread in excess of the risk free interest rates for the interest rate sensitive and credit risk bearing assets must be identified before calculating the credit spread risk requirement. The spread is used to determine a 'risky' yield curve by adding the average credit spread to the risk free interest rate yield curve. The present value of the assets and liabilities is then revalued using the 'risky' yield curve. Similar to the interest rate risk charge, the resulting largest absolute fall in value of the surplus will be taken as the credit spread risk charge.

2. R2: Insurance Risks (Risks relating to non-life insurance liabilities)

The capital charge relating to non-life insurance liabilities is calculated by applying the risk loading factors as shown below to the value of the Net Claim Liability and Net Unexpired Risk Reserve ('URR') at a 75 percentile level of sufficiency. The risk charge on the *Unexpired Risk Reserve* ('URR') shall be zerorised if the *Unearned Premium Reserve* ('UPR') exceeds the URR at the 99.5%ile level of sufficiency plus the RBC risk charge. The risks factors are as follows:

Net Claim Liability	Risk factors (2017)	Risk factors (2018)	Risk factors (2019 onwards)
Fire and Allied Perils	20%	24%	30%
Marine Cargo	20%	24%	30%
Marine Hull	20%	24%	30%
Aviation	20%	24%	30%
Bonds/Suretyship	24%	26%	30%
Motor CMVL	20%	22%	25%
Motor OD	20%	22%	25%
Personal Accident	24%	28%	35%
Medical and Health	24%	28%	35%
Engineering	20%	24%	30%
Others	20%	24%	30%

Net Unexpired Risks	Risk factors (2017)	Risk factors (2018)	Risk factors (2019 onwards)
Fire and Allied Perils	29%	29.5%	30%
Marine Cargo	45%	47%	50%
Marine Hull	45%	47%	50%
Aviation	45%	47%	50%
Bonds/Suretyship	40%	42%	45%
Motor CMVL	40%	42%	45%
Motor OD	40%	42%	45%
Personal Accident	24%	27%	30%
Medical and Health	24%	27%	30%
Engineering	29%	29.5%	30%
Others	40%	42%	45%

3. R4: Operational Risks (Risks relating to Operations)

One percent **(1%)** is applied on Gross Written Premium (GWP) or net policy liability (Claim and Premium Liabilities), whichever is greater, and is subject to cap of 10% of the total risk requirements.

4. R5: Catastrophe Risks (Risks related to Catastrophic Event)

A company is expected to have sufficient capital to withstand the net impact of a catastrophe event at the level of sufficiency prescribed by the Insurance Commission. This would mean the company should hold capital equal to or higher than the prescribed return period retained aggregate losses in any given year arising from Earthquake, Windstorm or combined Earthquake/Windstorm scenario.

The return period losses can be obtained from the Aggregate Exceedance Probability (AEP). The AEP is the probability that the associated loss level will be exceeded by the aggregated losses in any given year.

The occurrence of Earthquakes and Windstorms in any given year have been assumed to be independent under this approach.

The total capital required to be determined will be the maximum of the three components below:

- Prescribed year return period retained aggregated losses in any given year arising from an Earthquake;
- Prescribed year return period retained aggregated losses in any given year arising from a Windstorm;
- 60% of the combined prescribed return period retained aggregate losses in any given year arising from both the Earthquake and Windstorm.

For **2017** the required capital is computed as follows:

$$Required\ capital = maximum\ (EQ_{20-year\ return\ period}, WS_{20-year\ return\ period},$$
$$60\% \times (EQ_{20-year\ return\ period} + WS_{20-year\ return\ period}))$$

For **2018** the required capital is computed as follows:

$$Required\ capital = maximum\ (EQ_{40-year\ return\ period}, WS_{40-year\ return\ period},$$
$$60\% \times (EQ_{40-year\ return\ period} + WS_{40-year\ return\ period}))$$

For **2019** onwards the required capital is computed as follows:

$$Required\ capital = maximum\ (EQ_{200-year\ return\ period}, WS_{200-year\ return\ period},$$
$$60\% \times (EQ_{200-year\ return\ period} + WS_{200-year\ return\ period}))$$

An additional Credit Risk Charge on the catastrophe reinsurance recoveries (difference between Gross and Net aggregated losses) should also be included.