



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



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| Circular Letter (CL) No.: | 2017-15 |
| Date: | 10 March 2017 |
| Supplements: | CL No. 2016-69, CL No. 2016-68, CL No. 2016-65, CL No. 2015-02-A, and CL No. 2014-15 |

CIRCULAR LETTER

TO : ALL NON-LIFE INSURANCE AND PROFESSIONAL REINSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES

SUBJECT : REGULATORY REQUIREMENTS AND ACTIONS FOR THE NEW REGULATORY FRAMEWORK

Pursuant to the powers vested in the Insurance Commissioner by Sections 189, 200, 437 and 438 of Republic Act (RA) No. 10607, otherwise known as the Insurance Code, as amended, the following regulatory requirements and actions for the new regulatory framework, namely the Circular Letter (CL) No. 2016-65 "Financial Reporting Framework under Section 189 of the Amended Insurance Code", CL No. 2016-67 "Valuation Standards for Non-Life Insurance Policy Reserves" and CL No. 2016-68 "Amended Risk-Based Capital (RBC2) Framework", are hereby adopted and promulgated:

Section 1. Quarterly and annual reports submission

- 1.1. In view of the implementation of the new regulatory requirements under Circular Letter (CL) No. 2016-69 that took effect on 01 January 2017, all non-life insurance and professional reinsurance companies shall submit quarterly reports within two (2) months after the end of each quarter and for the annual report for period ending 31st of December, submission shall be on or before the 30th day of April of the succeeding year, as shown below:

| Period Covered | Submission Date |
|-----------------------|------------------------------|
| As of 31 March | 31 st of May |
| As of 30 June | 31 st of August |
| As of 30 September | 30 th of November |
| As of 31 December | 30 th of April |

- 1.2. The first (1st) quarter report in 2017 shall include the company's 01 January 2017 balances adjusted in accordance with the new regulatory framework.

Section 2. Transition Accounting

- 2.1. The cumulative prior year impact of the changes arising from the adoption of the New Financial Reporting Framework, including the revaluation of the reserves for Claims and Premiums Liabilities computed based on the new valuation standards for non-life insurance policy reserves as provided under CL No. 2016-67, shall be recognized in Retained Earnings – Transition Adjustments account, except for the following:
 - 2.1.1. Gains or losses on remeasuring available-for-sale financial assets which shall be recognized under Reserve for AFS Securities account;
 - 2.1.2. The effective portion of gains and losses on hedging instruments in a cash flow hedge which shall be recognized under Reserve for Cash Flow Hedge account;
 - 2.1.3. Gains and losses arising from change in fair value of hedging instruments in a hedge of a net investment in foreign operations which shall be recognized under Reserve for Hedge of a Net Investment in Foreign Operations account;
 - 2.1.4. Gains and losses arising from translating the financial statements of a foreign operation which shall be recognized under Cumulative Foreign Currency Translation account;
 - 2.1.5. Changes in revaluation surplus for property and equipment measured at fair value which shall be recognized under Reserve for Appraisal Increment – Property and Equipment account; and
 - 2.1.6. Remeasurements on defined benefit plans which shall be recognized under Remeasurement Gains (Losses) on Retirement Pension Asset (Obligation) account.
- 2.2. All changes in valuation shall be measured net of any tax effect.

Section 3. Regulatory Requirements

- 3.1. All non-life insurance and professional reinsurance companies doing business in the Philippines shall at all times maintain the minimum net worth requirement as prescribed under CL No. 2015-02-A.

- 3.2. All non-life insurance and professional reinsurance companies doing business in the Philippines shall at all times maintain the minimum RBC 2 requirement as prescribed under CL No. 2016-68.

Section 4. Regulatory Actions

- 4.1. For non-life insurance and professional reinsurance companies with net worth below the minimum requirement, the following shall be enforced:
- 4.1.1. The company shall be given ten (10) working days to cover-up in full the net worth impairment;
 - 4.1.2. If the company fails to cover-up in full the net worth impairment, the company shall be given five (5) working days to show cause in writing why it shall not be issued to Cease and Desist Order from transacting business in the Philippines as prescribed under Section 256 of the Amended Insurance Code; and
 - 4.1.3. Failure of the company to comply with the requirement under item (4.1.2.) shall result to the issuance of Cease and Desist Order (CDO).
- 4.2. For non-life insurance and professional reinsurance companies with RBC2 ratio below the 100% minimum requirement, the levels of regulatory intervention as prescribed under CL No. 2016-68 shall apply.

| RBC Ratio (Y) | Event | Action |
|------------------------|----------------------------------|--|
| $100\% \leq Y < 125\%$ | 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. |
| $75\% \leq Y < 100\%$ | Company Action | Company required to submit RBC plan and financial projections and implement the plan accordingly. |
| $50\% \leq Y < 75\%$ | Regulatory Action | IC authorized to issue Corrective Orders. |
| $Y < 50\%$ | Authorized and Mandatory Control | IC authorized and required to take control of the company. |

Section 5. Penalty

Failure to submit and incomplete submission of the reportorial requirements on submission dates shall be subject to the following penalties:

| Reports | Penalty |
|-------------------|----------------|
| Quarterly Reports | Php1,000/Day |
| Annual Report | Php5,000/Day |

Section 6. Effectivity

This Circular shall take effect immediately.



DENNIS B. FUNA
Insurance Commissioner

