CIRCULAR LETTER

TO : ALL INSURANCE/REINSURANCE COMPANIES AND MUTUAL BENEFIT ASSOCIATIONS AUTHORIZED TO TRANSACT BUSINESS IN THE PHILIPPINES

SUBJECT : GUIDELINES ON INVESTMENTS IN PURCHASE OF ACCOUNTS AND/OR LOANS RECEIVABLES

WHEREAS, Section 206, paragraphs (b) (4) and (11) of the Insurance Code of the Philippines, as amended by Republic Act No. 10607, respectively provide that an insurance company may purchase, hold, and own "x x x instruments of indebtedness of any solvent corporation or institution created or existing under the laws of the Philippines" and "such other securities as may be approved by the Commissioner";

WHEREAS, this Commission recognizes the importance of other means of investments, such as investments in purchase of accounts and/or loans receivables, to achieve financial sustainability and fully utilize the working capital of insurance/reinsurance companies and mutual benefit associations (MBAs);

NOW, THEREFORE, pursuant to the authority vested in the Insurance Commissioner under Section 437 of the Insurance Code of the Philippines, as amended by Republic Act No. 10607, to "issue such x x x circulars x x x as may be deemed necessary to secure the enforcement of [said Code], to ensure the efficient regulation of the insurance industry in accordance with global best practices and to protect the insuring public," the following Guidelines on Investments in Purchase of Accounts and/or Loans Receivables are hereby promulgated and adopted, to wit:

1. Prior Approval Required. – Insurance/reinsurance companies and MBAs authorized to transact business in the Philippines may, at the discretion of the Insurance Commissioner, be allowed to invest in the purchase of accounts and/or loans receivables; Provided, that, the Insurance Commissioner’s prior approval shall be sought.

2. Definition of Terms. – For the purpose of these guidelines, the following terms are defined as follows:
Seller. – The original owner and obligee of the underlying transaction of the receivable(s) being purchased by the insurance/reinsurance companies and MBAs.

Debtor. – The obligor legally obligated through a binding contract to pay or settle certain amounts in the underlying transaction of the receivable(s).

Arranger. – The third party approved by the Insurance Commission, authorized to offer for the sale of the Seller’s receivable(s) and to manage the same for the buyer thereof.

3. Request for Approval and Documentation. – The request for approval of such investment/s shall be in writing and submitted together with the following documents:

a. Documents containing the Nature and Terms of the Accounts and/or Loans Receivables, including the Agreement between the Parties for the Purchase thereof;
b. Audited Financial Statements of the Seller for the past three (3) years;
c. Documents covering background information of the designated Arranger or its equivalent, if and when an Arranger is to be engaged by the Parties;
d. Standard Underlying Agreement between the Seller and the Debtor covering the obligation and collaterals assigned by the latter; and
e. An information summary covering the underlying transactions to include;
   i. Obligor’s name(s);
   ii. Remaining term of the obligation;
   iii. Outstanding amount; and
   iv. Collateral.

Where the proposed Purchase of Receivables involves a series of transactions with the same Seller, each with a similar set of underlying instruments, the Buyer shall submit to the Commission for approval the proposed investment program with the total aggregate amount of the Receivables to be purchased thereunder. For each subsequent purchase transaction, the corresponding information summary as stated in item 3 (e) above shall be submitted.

4. Processing Guidelines. – In the processing of requests for approval of investments in purchase of accounts and/or loans receivables, the following guidelines shall be observed:

a. Only solvent corporations or institutions created or existing under the laws of the Philippines shall be allowed as Sellers of accounts and/or loans receivables:

b. The Seller’s Receivable(s) arising from the sale of the following investment instruments mentioned below shall be considered as
"accounts and/or loans receivables" for the purposes of this Circular Letter:

i. Common shares of stock of solvent corporations;
ii. Corporate bonds duly approved by the Securities and Exchange Commission (SEC); and
iii. Real estate mortgage/s.

c. To establish the solvency of the Sellers of accounts and/or loans receivables, such entities must present to the Commission their respective Audited Financial Statements for the past three (3) years during application for approval of the proposed investments under this Circular.

All accounts and loans receivables to be submitted for approval must not carry any past due amortizations.

d. Any arranger to be engaged under this Circular to offer and/or to manage the Receivables for insurance/reinsurance companies and MBAs shall seek prior written approval from this Commission. Such Arranger must have at least three (3) years of experience in investments in the purchase of accounts and/or loans receivables and/or fund management.

5. Investment Limitations. – The following limitations shall be strictly observed:

a. For life insurance companies and MBAs: The total allowed investments in the purchase of accounts and/or loans receivables shall not exceed twenty-five percent (25%) of the investing company's total admitted assets as per the latest approved annual statement; and

b. For non-life insurance and reinsurance companies: The total allowed investments in the purchase of accounts and/or loans receivables shall not exceed twenty percent (20%) of the investing company's net worth as per the latest approved annual statement.

6. Reserve Investment. – Investments in the purchase of accounts and/or loans receivables may be considered as reserve investments.

7. Effectivity. – This Circular Letter shall take effect immediately.

For strict compliance.

DENNIS B. FUNA
Insurance Commissioner