CIRCULAR LETTER

TO: ALL INSURANCE AND PROFESSIONAL REINSURANCE COMPANIES AUTHORIZED TO TRANSACT BUSINESS IN THE PHILIPPINES

SUBJECT: GUIDELINES FOR INVESTMENTS IN THE INFRASTRUCTURE PROJECTS UNDER PHILIPPINE DEVELOPMENT PLAN (PDP)

WHEREAS, the Insurance Code, as amended by R.A. No. 10607, was passed into law on 15 August 2013 and took effect on 20 September 2013.

WHEREAS, Sections 194 and 289 of the Insurance Code provides that insurance and reinsurance companies must comply with the minimum Net Worth requirement as prescribed therein to be authorized to transact business in the Philippines.

WHEREAS, the Insurance Commission recognizes the importance of other means of investment to aid insurance and professional reinsurance companies to comply with the requirements of the Insurance Code.

WHEREAS, under Section 202 (k), the Insurance Commissioner shall allow other assets which are deemed to be readily realizable by the Commission and available for the payment of losses and claims.

WHEREAS, Part VI: Foundations of Sustainable Development of the Philippine Development Plan (PDP) for 2017-2022 recognizes the importance of infrastructure for inclusive growth and sustainable development.

NOW, THEREFORE, pursuant to the authority vested to the Insurance Commissioner by the provisions of Sections 194, 202, 289 and 437 of the Insurance Code, the following Guidelines for admissibility of Investments in the Infrastructure Projects under PDP is hereby promulgated:
SECTION 1. COVERAGE

This Circular Letter (CL) covers all investments of insurance and professional reinsurance companies in the Infrastructure Projects under PDP.

SECTION 2. OBJECTIVE

The primary objective of this CL is to provide guidance and framework on the allowable investments of insurance and professional reinsurance companies and to provide the insurance and professional reinsurance companies investment options to comply with the net worth build up program under Section 194 of the Insurance Code and IC CL No. 2015-02-A.

SECTION 3. FORM OF INVESTMENTS

All insurance and professional reinsurance companies may invest either in debt and/or equity security instrument for the Infrastructure Projects under Philippine Development Plan through the following participations:

3.1. Construction – insurance and professional reinsurance companies may enter as project proponent.

3.2. Project financing – insurance and professional reinsurance companies may enter as financiers or sponsors.

3.3. Operation and maintenance contract – insurance and professional reinsurance companies through an existing public service facility which will require operation and maintenance and will be paid through consignment or service fees.

SECTION 4. ELIGIBLE TYPES OF INFRASTRUCTURE PROJECTS

The following are the activities which may be undertaken as provided under PDP for 2017 to 2022:

4.1. Highways, including expressways, roads, bridges, interchanges, tunnels, and related facilities;

4.2. Railways or rail-based projects that may or may not be packaged with commercial development opportunities;

4.3. Non-rail-based mass transit facilities, navigable inland waterways and related facilities;

4.4. Port infrastructures like piers, wharves, quays, storage, handling, ferry services and related facilities;

4.5. Airports, air navigation, and related facilities;
4.6. Power generation, transmission, sub-transmission, distribution, and related facilities;

4.7. Telecommunications, backbone network, terrestrial and satellite facilities and related service facilities;

4.8. Information technology (IT) and data base infrastructure, including modernization of IT, geo-spatial resource mapping and cadastral survey for resource accounting and planning;

4.9. Irrigation and related facilities;

4.10. Water supply, sewerage, drainage, and related facilities;

4.11. Education and health infrastructure;

4.12. Land reclamation, dredging and other related development facilities;

4.13. Industrial and tourism estates or townships, including ecotourism projects such as terrestrial and coastal/marine nature parks, among others and related infrastructure facilities and utilities;


4.15. Markets, slaughterhouses, and related facilities;

4.16. Warehouses and post-harvest facilities;

4.17. Public fish ports and fishponds, including storage and processing facilities;

4.18. Environmental and solid waste management related facilities such as, but not limited to, collection equipment, composting plants, landfill and tidal barriers, among others; and

4.19. Climate change mitigation and adaptation infrastructure projects and related facilities.

SECTION 5. RESERVE INVESTMENT

5.1. Investments in infrastructure project with guaranty or with contingent liability fund shall be considered as reserve investment.

5.2. Investments in infrastructure project without guaranty or without contingent liability fund may also be considered as reserve investment subject to the following limitations:

5.2.1. For life insurance companies: The total allowed investments in infrastructure project shall not exceed forty percent (40%) of the investing company’s total admitted assets as per the latest approved annual statement; and
5.2.2. For non-life insurance and professional reinsurance companies: The total allowed investments in infrastructure project shall not exceed forty percent (40%) of the investing company's net worth as per the latest approved annual statement.

SECTION 6. REPORTORIAL REQUIREMENTS

All insurance and professional reinsurance companies shall submit documentary requirements as prescribed in “Annex A” and shall obtain prior approval from the Insurance Commissioner.

SECTION 7. COMPLIANCE WITH MINIMUM NET WORTH AND RBC2 REQUIREMENTS

All insurance and professional reinsurance companies shall apply the guidelines as prescribed in “Annex B” to their investments in the Infrastructure Projects under the Philippine Development Plan (PDP).

SECTION 8. MISCELLANEOUS

If any provisions or part of this CL is held invalid or unconstitutional, the remainder of the same or the provision(s) not otherwise affected shall remain valid and subsisting.

SECTION 9. EFFECTIVITY

This Circular shall take effect immediately.

DENNIS B. FUNA
Insurance Commissioner
ANNEX A

REQUIREMENTS AND DOCUMENTARY SUBMISSIONS

All insurance and professional reinsurance companies may invest in the infrastructure projects provided that prior approval of the Insurance Commissioner shall be obtained. The following documentary requirements shall be submitted for evaluation and assessment:

1. General documentary requirements:
   1.1. Letter of request for approval addressed to the Insurance Commissioner to invest in infrastructure projects under Sections 3 and 4 of this CL;
   1.2. Board resolution by the insurance and/or reinsurance company approving the investment in the infrastructure project; and
   1.3. Audited financial statements of the infrastructure projects (for the existing projects);
   1.4. All other documents necessary for the evaluation and assessment of the infrastructure projects.

2. In case of Project Proponents, the following additional documents shall be submitted:
   2.1. Feasibility study of the project covering a period ranging from three (3) to five (5) years, with projected financial statements, positive internal rate of return (IRR), minimum debt service coverage ratio (DSCR) of 1.5, financing structure and other relevant information as necessary.
   2.2. Debt Service Coverage Ratio (DSCR) is computed as follows:

   \[
   DSCR = \frac{\text{Cash Flow available for debt service}}{\text{Debt Service (Principal, interest and other charges)}}
   \]

3. In case of Project Financing, the following additional documents shall be submitted:
   3.1. Document that the proponent company qualifies under the projects under Section 4 of this CL;
   3.2. Prospectus or indicative terms and conditions of the financing instrument;
   3.3. An assessment report of the company on the investment that incorporate among others:
3.3.1. Risks, such as market, financial, operational, involved in the investment and the quantification of such risks;

3.3.2. Basis for decision to invest based on the financial and economic terms; and

3.3.3. Projected impact in the company's cash flows.

4. In case of Operation and Management Contract, the following additional documents shall be submitted:

4.1. Pro-forma operation and management agreement/contract between company (Infrastructure Project) and the Manager (Service Provider);

and

4.2. Pro-forma contract between the service provider and insurance and professional reinsurance companies.
ANNEX B

NET WORTH AND RISK-BASED CAPITAL (RBC2) REQUIREMENTS

All insurance and professional reinsurance companies shall apply the following guidelines to their investments in the Infrastructure Projects under the Philippine Development Plan (PDP):

1. NET WORTH REQUIREMENTS

For the Net Worth computation, only investment in infrastructure projects approved by the Insurance Commission shall be considered as Admitted Assets.

2. RBC2 REQUIREMENTS

The capital charge relating to investment in the Infrastructure Projects under PDP is calculated by applying the risk factors as provided under Circular Letter (CL) No. 2016-68 on the Amended Risk-Based Capital Framework.

A. Debt Instrument

The credit rating for debt instrument under CL No. 2016-68 shall apply in calculating the risk factors. In case the Investment in the Infrastructure Project has no available rating from credit rating agency as prescribed under the said CL, the equivalent Bloomberg credit rating shall apply in calculating the risk factors.

The Bloomberg credit rating shall have the following RBC2 equivalent:

<table>
<thead>
<tr>
<th>Bloomberg Credit Rating</th>
<th>RBC2 Equivalent</th>
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</thead>
<tbody>
<tr>
<td>1. IG1 to IG4</td>
<td>AAA to AA-</td>
</tr>
<tr>
<td>2. IG5 to IG7</td>
<td>A+ to A-</td>
</tr>
<tr>
<td>3. IG8 to IG10</td>
<td>BBB+ to BBB-</td>
</tr>
<tr>
<td>4. HY1 to HY6</td>
<td>BB+ to B-</td>
</tr>
<tr>
<td>5. DS1 to DS5</td>
<td>CCC or worse</td>
</tr>
</tbody>
</table>

*IG = Investment Grade HY = High Yield DS = Distressed

B. Equity Instrument

The capital charge for equity instrument relating to investment in the Infrastructure Project is calculated by applying the risk factors on listed and unlisted equity securities.