CIRCULAR LETTER

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

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

WHEREAS, Executive Order (EO) No. 5 (s. 2016) adopted the long-term vision entitled Ambisyon Natin 2040 as a guide for development planning over the next twenty-five (25) years to enable Filipinos to attain a standard of living encapsulated by the phrase: “matatag, maginhawa at panatag na buhay”;

WHEREAS, the Philippine Development Plan (PDP) 2017-2022, which is the first medium-term plan to operationalize Ambisyon Natin 2040 that aims to lay down a solid foundation for more inclusive growth, a high-trust and resilient society, and a globally competitive knowledge economy, was approved by the National Economic and Development Authority (NEDA) on 20 February 2017, following a series of Cabinet-level and technical inter-agency discussions and stakeholder consultations;

WHEREAS, EO No. 27 (s. 2017) directed all heads of departments, offices and instrumentalities of the national government, including GOCCs, to align their budgetary and departmental/corporate programs with the strategies and activities identified in the PDP 2017-2022;

WHEREAS, in accordance with the direction provided under EO No. 27 (s. 2017), this Commission hereby encourages insurance and professional reinsurance companies to invest in various infrastructure projects under the PDP 2017-2022 in relation to said companies’ compliance with statutory net worth and risk-based capital requirements;
WHEREAS, pursuant to Section 202 (k) of the Insurance Code of the Philippines, as amended by Republic Act No. 10607, such investments in infrastructure projects under the PDP 2017-2022 may fall within the purview of “other assets [legally or beneficially owned by such insurance or professional reinsurance company], not inconsistent with the provisions of paragraphs (a) to (j) thereof, which are deemed by the Commissioner to be readily realizable and available for the payment of losses and claims at values to be determined by him in a circular, rule, or regulation”;

NOW, THEREFORE, pursuant to the undersigned’s power under Section 437 of the Insurance Code of the Philippines, as amended by Republic Act No. 10607, to issue circulars “x x x as may be deemed necessary to secure the enforcement of the provisions 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 Amended Guidelines on Investments in Infrastructure Projects Under the Philippine Development Plan (PDP) are hereby adopted and promulgated:

SECTION 1. COVERAGE

This Circular Letter provides for guidelines for investments that an insurance or professional reinsurance company in infrastructure projects under the PDP may undertake.

SECTION 2. OBJECTIVES

This Circular Letter aims to encourage insurance or professional reinsurance companies to invest in infrastructure projects under the PDP in relation to their compliance with statutory net worth and risk-based capital requirements; and to provide a regulatory framework for said purpose.

SECTION 3. FORMS OF INVESTMENT

An insurance or professional reinsurance company seeking to invest in an infrastructure project under the PDP may enter into or avail of debt and/or equity security instruments and/or any other appropriate agreement or contract in the following participations and capacities:

3.1. Construction – An insurance or professional reinsurance company may invest in a construction project as a Project Proponent;

3.2. Project Financing – An insurance or professional reinsurance company may invest as a financer or sponsor of an infrastructure project; or

3.3. Operation and Maintenance Contract – An insurance or professional reinsurance company may enter into an operation and maintenance contract of an existing public service facility requiring operation and maintenance for and in consideration of consignment or service fees.
SECTION 4. TYPES OF INFRASTRUCTURE PROJECTS/ACTIVITIES

An insurance or professional reinsurance company may invest in the following types of infrastructure projects/activities under the PDP, among others, viz:

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 such as 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 database infrastructure, including modernization of IT, geospatial 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 related estates or townships, including ecotourism projects such as terrestrial and coastal/marine nature parks, among others, and related infrastructure and utilities;

4.14. Government buildings or housing projects;

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. INVESTMENT TREATMENT

5.1. Investments in infrastructure projects under the PDP with government guaranty or with a contingent liability fund set-up by the Department of Budget and Management (DBM) shall be considered as reserve investments.

5.2. Investments in infrastructure projects under the PDP without government guaranty or without a contingent liability fund set-up by the DBM shall be treated as follows:

5.2.1. For Life Insurance Companies – The total allowable investments in infrastructure projects under the PDP shall not exceed forty percent (40%) of the investing company’s admitted assets as per its latest approved annual statement. Any and all excess investments shall be considered as surplus investments.

5.2.2. For Non-Life Insurance Companies and Professional Reinsurance Companies – The total allowable investments in infrastructure projects under the PDP shall not exceed forty percent (40%) of the investing company’s net worth as per its latest approved annual statement. Any and all excess investments shall be considered as surplus investments.

SECTION 6. PRE-APPROVAL REQUIREMENTS

6.1. No investment in infrastructure projects under the PDP shall be allowed and/or admitted as an asset of the insurance or professional reinsurance company unless approved by this Commission.

6.2. An insurance or professional reinsurance company seeking approval of its investment in infrastructure project/s under the PDP shall submit the following documents for this Commission’s evaluation and assessment, to wit:

6.2.1. The general documentary requirements are as follows:

6.2.1.1. Written request addressed to the Insurance Commissioner for approval to invest in an infrastructure project under the PDP in accordance with Sections 3 and 4 of this Circular Letter;

6.2.1.2. The concerned company’s board resolution approving the investment in such infrastructure project;

6.2.1.3. Latest audited financial statement of the infrastructure project (for existing projects); and
6.2.1.4. Assessment report of the investing company, which incorporates the following matters, among others: (a) Risks (e.g., market, financial, operational, and other risks) involved in the investment and the quantification of such risks; (b) Rationale for the decision to invest in the infrastructure project, expressed in financial and economic terms; and (c) Projected impact of the investment on the investing company’s cash flows; and

6.2.1.5. All other pertinent documents that will aid this Commission in arriving at a judicious evaluation and assessment of the project.

6.2.2. If the insurance or professional reinsurance company is investing as a Project Proponent pursuant to Section 3.1. of this Circular Letter, the following additional documents shall be submitted:

6.2.2.1. A copy of the feasibility study and project proposal submitted to and duly approved by the National Economic and Development Authority.

6.2.3. If the insurance or professional reinsurance company is intending to undertake Project Financing pursuant to Section 3.2. of this Circular Letter, the following additional documents shall be submitted:

6.2.3.1. Prospectus or indicative terms and conditions of the relevant financial instrument/s.

6.2.4. If the insurance or professional reinsurance company is intending to enter in an Operation and Maintenance Contract pursuant to Section 3.3. of this Circular Letter, the following additional documents shall be submitted:

6.2.4.1. A copy of the feasibility study and project proposal submitted to and duly approved by the National Economic and Development Authority;

6.2.4.2. The operation and maintenance agreement/contract between the project proponent and the existing manager/service provider; and

6.2.4.3. The proposed agreement/contract between the existing manager/service provider and the investing insurance or professional reinsurance company.

SECTION 7. NET WORTH AND RISK-BASED CAPITAL CONSIDERATIONS

7.1. For net worth computation, only investments in infrastructure projects approved by the Insurance Commission shall be considered as admitted assets of the insurance or professional reinsurance company.
7.2. In calculating the capital charge relating to investments in infrastructure projects under the PDP, risk factors shall be taken into account and the corresponding risk charges shall be applied, to wit:

7.2.1. **Debt Instruments** – The risk charge on a debt instrument relating to the investment in an infrastructure project under the PDP shall be six percent (6%)\(^1\). However, the Commission may, at its discretion, impose a lower risk charge considering a high credit rating on the instrument given by an external credit rating agency.

7.2.2. **Equity Instrument** – The risk charge on an equity instrument relating to the investment in an infrastructure project under the PDP shall be nine percent (9%).

**SECTION 8. SEPARABILITY CLAUSE**

If any provision or part of this Circular Letter shall be held invalid or unconstitutional, the unaffected provisions or parts shall remain valid and subsisting.

**SECTION 9. REPEALING CLAUSE**

All circulars, rules and regulations or parts thereof that are inconsistent with the provisions of this Circular are deemed repealed, superseded or modified accordingly.

**SECTION 10. EFFECTIVITY CLAUSE**

This Circular Letter shall take effect immediately.

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\(^1\) The maximum rate of 6% was based on BBB+ credit risk charge required to be maintained by insurance companies under the RBC2 Framework. The BBB+ or investment grade is equivalent to the current credit rating of the Philippines.