CIRCULAR LETTER

TO : ALL DOMESTIC INSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES

SUBJECT : GUIDELINES FOR THE DECLARATION AND/OR DISTRIBUTION OF DIVIDENDS

Pursuant to the powers vested in the Insurance Commissioner to issue circulars as may be deemed necessary to secure the enforcement of the Code and to ensure the efficient regulation of the insurance industry under Section 437 of The Insurance Code, as amended by Republic Act No. 10607, the Commission hereby prescribes the following guidelines for the declaration and/or distribution of dividends.

Section 1. Applicability. – This guidelines shall govern the following dividend declarations of domestic insurance companies doing business in the Philippines, to wit:

a) Cash dividend;
b) Property dividend; and,
c) Stock dividend.

Section 2. Definition of Terms. – For the purposes of these Rules, the following terms shall mean or be understood as follows:

a) "Commissioner" – the Insurance Commissioner;
b) "Retained Earnings" – This represents the accumulated earnings of the company reduced by any losses the company may incur during a certain accounting period or by dividend declaration;
c) "Unrestricted Retained Earnings" – This represents the accumulated earnings of the company available for dividend declaration;
d) "Insurance Company" — shall include all partnerships, associations, cooperatives or corporations, including government-owned or -controlled corporations or entities, engaged as principals in the insurance business, excepting mutual benefit associations;

e) "Domestic Company" — shall include companies formed, organized or existing under the laws of the Philippines;

f) "Capital Stock" — This represents ownership of the shareholders in the company composed of capital stocks issued and outstanding as of report date. This shall be classified as follows:

Preferred Stock – This represents shares of stock which provide the stockholders preference as to dividends and upon liquidation. The features of the preferred stocks are varying and should be carefully analyzed whether these qualify as capital stock or creates an obligation on the part of the company. In the latter case, the preferred stocks issued should be classified as part of liabilities.

Common Stock – This represents shares of stock issued to stockholders which have residual equity interest in the company;

g) "Board of Directors" — This represents a group of individuals elected to represent stockholders;

h) "Dividend" — This represents a sum of money, property or stock paid by the company to its stockholders out of its unrestricted retained earnings.

i) "Paid-in Capital" — used interchangeably with capital stock;

j) "Net Worth" — This consists of (1) paid-up capital (or capital stock), (2) retained earnings, (3) unimpaired surplus and (4) revaluation of assets as may be approved by the Insurance Commissioner in accordance with Section 194 of the Amended Insurance Code and relevant Circulars; and,

k) "Code" — The Insurance Code, as amended by R.A. 10607.

Section 3. No Prior Insurance Commission (IC) Approval Required. — The declaration of dividends shall require no prior approval or clearance from the Insurance Commission in accordance with Section 201 of the Insurance Code, as amended by R.A. No. 10607.

Section 4. Post Distribution Reportorial Requirement. — A domestic insurance company which has declared or distributed dividend shall report the same to the Insurance Commission, through the Investment Services Division, within thirty (30) days
after such declaration or distribution. Said report shall be accompanied by the following documents, to wit:

a) Certification under oath by the Corporate Secretary on the board of directors resolution declaring dividends;
b) Approved Synopsis of the Annual Statement as of the last fiscal year;
c) Interim unaudited financial statements certified by the Finance Officer (if the basis of determining the sufficiency of retained earnings is other than the approved Synopsis of the Annual Statement);
d) Notarized Secretary's Certificate of the Board resolution as of the reversal of appropriated retained to unappropriated retained earnings; and,
e) Secretary's Certificate of no pending case of intra-corporate dispute

Additional requirements in case of stock dividend:

a) List of stockholders with their respective subscribed capital stock as of the date of the meeting approving the declaration of stock dividend together with the allocation of stock dividend certified under oath by the Corporate Secretary; and,
b) Analysis of Capital Structure certified under oath by the Treasurer.

Additional requirements in case of property dividend:

a) List of stockholders with their respective subscribed capital stock as of the date of the meeting approving the declaration of property dividend together with the allocation of property dividend certified under oath by the Corporate Secretary;
b) Detailed Schedule of the property account appearing in the Annual Statement; and,
c) Certification by the President that the property/ies for dividend declaration is/are no longer needed in the operation of the company.

Section 5. Basis for the Declaration or Distribution of Dividend. – No domestic insurance company shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum paid-up capital and net worth requirements under Section 194 and except from the profits attested in a sworn statement to the Commissioner by the president or treasurer of the company to be remaining on hand after retaining unimpaired:

(a) The entire paid-up capital stock;
(b) The solvency requirements defined by Section 200;
(c) In the case of life insurance corporations, the legal reserve fund required by Section 217;
(d) In the case of corporations other than life, the legal reserve fund required by Section 219; and,
(e) A sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

Section 6. **Effect in Case of Violation.** – If the Commissioner finds that any such corporation has declared or distributed any such dividend in violation of this Circular Letter, he may order such corporation to cease and desist from doing business, upon the recommendation of the Deputy Commissioner for Technical Services Group, until the amount of such dividend or the portion thereof in excess of the amount allowed under this Circular Letter has been restored to said corporation.

Section 7. **Applicability of Relevant Laws.** – The provisions under this circular are without prejudice to application of pertinent laws, rules and regulations being implemented by other government regulatory agencies.

Section 8. **Effectivity.** – This Circular takes effect immediately.

For strict compliance.

DENNIS B. FUNA
Insurance Commissioner

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