CIRCULAR LETTER

TO: ALL REGULATED ENTITIES AUTHORIZED TO DO BUSINESS IN THE PHILIPPINES

SUBJECT: INTERIM GUIDELINES ON THE DECLARATION AND/OR DISTRIBUTION OF DIVIDENDS WITH THE END IN VIEW OF CONSERVING CAPITAL DUE TO THE PROJECTED ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

WHEREAS, Section 437 of the Insurance Code, as amended, gives the Commissioner the authority to issue circulars as may be deemed necessary to secure the enforcement and efficient regulation of the insurance industry;

WHEREAS, Section 6 of the Pre-Need Code, gives the Commissioner the authority to regulate, supervise, and monitor the operations and management of pre-need companies to ensure compliance with the provisions of this Code, existing laws, rules and regulations;

WHEREAS, Section 4 of the Executive Order No. 192, s. 2015, gives the Commissioner the authority to regulate, supervise, and monitor the operations and management of Health and Maintenance Organizations (HMOs) to ensure compliance with this Order, existing laws, rules, and regulations, and such other directives and circulars issued by the Insurance Commissioner;

WHEREAS, Circular Letter (CL) No. 2019-60 dated 30 October 2019, provides the guidelines for the declaration and/or distribution of dividends for all domestic insurance companies doing business in the Philippines;

WHEREAS, sufficient capital buffers enable all regulated entities to conserve their capital and to sustain its services in case of economic downturn and unprecedented number of claims;

NOW, THEREFORE, in view of all the foregoing and in accordance with the Insurance Commissioner's power under Section 437 of the Amended Insurance
Code, Section 6 of the Pre-Need Code, and Section 4 of the Executive Order No. 192, s. 2015, the following guidelines are hereby promulgated:

Section 1. Applicability

The guidelines shall govern the following dividend declarations and of all regulated entities authorized to do business in the Philippines, to wit:

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

Section 2. Regulatory measures

All regulated entities authorized to do business in the Philippines shall meet the following regulatory measures at all times, without regulatory relief, before declaration and/or distribution of dividends out of the unrestricted retained earnings:

For insurance and professional reinsurance companies

a. Unimpaired paid-up capital stock;
   b. The net worth requirements as prescribed by Circular Letter (CL) No. 2015-02-A and Section 194 of the Amended Insurance Code;
   c. The solvency requirements defined by Section 200 of the Amended Insurance Code;
   d. In the case of life insurance companies, the legal reserve fund required by Section 217;
   e. In the case of corporations other than life, the legal reserve fund required by Section 219; and
   f. A sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

For pre-need companies

a. Unimpaired paid-up capital stock;
   b. Unimpaired trust fund;
   c. The reserve liability and liquidity reserve requirements required by Sections 35 and 37, respectively, of the Pre-Need Code; and
   d. A sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

For HMOs

a. The minimum paid-up capital, risk-based capitalization and net worth requirements as prescribed by CL No. 2016-41;
   b. The liquidity requirement as prescribed by CL No. 2016-41; and
   c. A sum sufficient to pay all net losses reported, or in the course of settlement, and all liabilities for expenses and taxes.

Further, the Insurance Commission has the prerogative to disapprove any request to declare and/or distribute of dividends out of the unrestricted retained earnings if
reasonably necessary to protect the interest of the public and the company itself due to the economic impact of the COVID-19 pandemic. The thrust of the Commission shall be the conservation of capital in view of the uncertain economic projections for the country during this time of worldwide pandemic.

Section 3. Prior Approval

All regulated entities authorized to do business in the Philippines that will declare and/or distribute dividends for the year 2020 shall be required to secure prior approval from the Commission together with the following documents subject for evaluation, to wit:

a. Approved Annual Statement as of 31 December 2019;

b. Interim unaudited financial statements certified under oath by the President and Finance Officer;

c. Notarized Secretary's Certificate of the Board resolution as of the reversal of restricted retained to unrestricted retained earnings, if applicable; and

d. Notarized Secretary's Certificate of no pending case of intra-corporate dispute;

Additional requirement in case of cash dividend:

a. List of assets to be converted, in case of insufficient cash available for distribution, certified under oath by the Treasurer;

Additional requirements in case of stock dividend:

a. List of stockholders with their respective subscribed capital stock 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 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 4. Effect in Case of Violation
If the Insurance Commissioner finds that a regulated entity has declared or distributed any such dividend in violation of this Circular Letter, the regulated entity may be ordered to cease and desist from doing business until the amount of such dividend or the portion thereof in excess of the amount allowed under this Circular Letter has been restored.

Section 5. Suspension of CL No. 2019-60

This Circular Letter temporarily suspends CL No. 2019-60 until 31 December 2020.

Section 6. 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 7. Effectivity

This Circular shall take effect until 31 December 2020 only.

DENNIS B. FUNA
Insurance Commissioner