



Republic of the Philippines  
Department of Finance  
**INSURANCE COMMISSION**  
1071 United Nations Avenue  
Manila



**ADVISORY NO. 17 - 2017**

**TO :** ALL NON-LIFE INSURANCE AND PROFESSIONAL REINSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES AND ALL EXTERNAL AUDITORS ACCREDITED BY THE INSURANCE COMMISSION

**SUBJECT :** CIRCULAR LETTER: GUIDELINES IN THE DETERMINATION OF THE NON-ADMITTED ASSETS OF INSURANCE AND PROFESSIONAL REINSURANCE COMPANIES

**DATE :** 11 August 2017

---

Section 189 of the Amended Insurance Code provides that all insurance and professional reinsurance companies, unless otherwise required by law, should comply with the financial reporting frameworks adopted by this Commission. In relation thereto, the Commission issued Circular Letter (CL) No. 2016-65 dated 28 December 2016 re: Financial Reporting Framework and CL No. 2016-68 dated 28 December 2016 re: Amended Risk-Based Capital (RBC2) Framework. The implementation date are both 01 January 2017. The framework requires the determination of non-admitted assets for the computation of Net Worth and RBC2 ratio.

In relation thereto, you are hereby directed to provide your comments on the attached draft Circular on "GUIDELINES IN THE DETERMINATION OF THE NON-ADMITTED ASSETS OF INSURANCE AND PROFESSIONAL REINSURANCE COMPANIES" on or before 31 August 2017. Comments shall follow the standard format as follows:

- Section/ Provision Being Covered
- Comments and Recommendations
- Proposed revised provisions, if applicable

The comments shall be submitted to Mr. Camilo Carl I. Roque ([cci.roque@insurance.gov.ph](mailto:cci.roque@insurance.gov.ph)) or Ms. Imari D. Plana ([id.plana@insurance.gov.ph](mailto:id.plana@insurance.gov.ph)). For inquiries and questions, please call Non-life Division at +63(2) – 523-8462 to 70 local 152 and 139.

For strict compliance.

  
**DENNIS B. FUNA**  
Insurance Commissioner



Attachment: Draft Circular Letter

## DRAFT FOR COMMENT

Circular Letter (CL) No.:	
Date:	
Supersedes:	None

### CIRCULAR LETTER

**TO :** ALL NON-LIFE INSURANCE AND PROFESSIONAL REINSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES AND ALL EXTERNAL AUDITORS ACCREDITED BY THE INSURANCE COMMISSION

**SUBJECT :** GUIDELINES IN THE DETERMINATION OF THE NON-ADMITTED ASSETS OF INSURANCE AND PROFESSIONAL REINSURANCE COMPANIES

---

Pursuant to the provisions under Section 203 on non-admitted assets and the limitations in assets and investments as provided under Titles 3 and 4 of Chapter III of the Amended Insurance Code respectively and the Circular Letter (CL) No. 2016-65 "Financial Reporting Framework under Section 189 of the Amended Insurance Code" and CL No. 2016-68 "Amended Risk-Based Capital (RBC2) Framework" of the new regulatory frameworks, the following guidelines on the non-admitted assets are hereby promulgated for the determination of net worth and RBC2 ratio of non-life insurance and professional reinsurance companies:

#### **1. Non-Admitted Assets under Section 203 of the Amended Insurance Code**

The following assets shall in no case be allowed as admitted assets of non-life insurance and professional reinsurance companies:

1.1 Goodwill, trade names, and other like intangible assets;

1.2 Prepaid or deferred charges for expenses and commissions paid:

1.2.1 Prepaid/Deferred tax asset that rely on the future profitability:

1.2.1.1. Deferred income tax;

1.2.1.2. Excess Minimum Corporate Income Tax (MCIT);  
and/or

1.2.1.3. Other taxes that rely on future profitability that are not beneficial to the policyholders.

1.2.2 Creditable Withholding Tax (unless applied as tax credit or refunded);

1.2.3 Prepaid/Deferred Input Value Added Tax (unless applied as tax credit or refunded);

- 1.2.4 Contract/Rental deposits;
  - 1.2.5 Documentary Stamps (in an amount exceeding the DST Payable);
  - 1.2.6 Postage stamps; and/or
  - 1.2.7 Other prepaid and deferred charges that fall within the definition of (1.2).
- 1.3 Advances and receivables which are not fully secured and not previously authorized by the Insurance Commissioner:
- 1.3.1 Advances to shareholders, officers and directors;
  - 1.3.2 Advances to subsidiaries and associates;
  - 1.3.3 Advances to employees, agents;
  - 1.3.4 Advances to suppliers;
  - 1.3.5 Advances to other persons on mere personal security
  - 1.3.6 Accounts receivable
  - 1.3.7 Notes receivable; and/or
  - 1.3.8 Other receivables.
- 1.4 Shares of stock of such insurance companies, owned by it (treasury shares), or an equity therein as well as loans secured thereby (treasury shares), or any proportionate interest in such shares of stock (treasury shares) through the ownership by such insurance company of an interest in another corporation or business unit;
- 1.5 Property, equipment, and supplies:
- 1.5.1 Leasehold and leasehold improvements;
  - 1.5.2 Building improvements without prior approval from the Insurance Commissioner;
  - 1.5.3 Furniture, furnishings & fixtures;
  - 1.5.4 Safes;
  - 1.5.5 Transportation equipment;
  - 1.5.6 Other equipment except Electronic Data Processing machines (IT equipment);
  - 1.5.7 Library;
  - 1.5.8 Stationery;
  - 1.5.9 Literature; and/or
  - 1.5.10 Office supplies.
- 1.6 Items of bank credits representing checks, drafts or notes returned and unpaid after the date of statement;
- 1.7 The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such non-life insurance or professional reinsurance companies exceeds what is allowed under Section 2 of this Circular and those allowed under the rules of the Commissioner;
- 1.8 The amount, if any, by which the aggregate value of assets as carried in the ledger assets of such non-life insurance or professional reinsurance companies exceeds what is allowed under Section 3 of this Circular and those allowed under the rules of the Commissioner.

**2. Limitations in Investments as provided under the Amended Insurance Code and Circular Letters**

<b>Capital Investment</b>	<b>Legal Reserve Investment</b>	<b>Surplus Investment</b> (Require Prior Approval of the Insurance Commissioner)
		Section 211 - After satisfying the requirements contained in Section 197, 199, 209 and 210, investment in stocks or bonds of any single entity shall in the aggregate, exceed 20% of the net worth of the insurance company as shown in its latest financial statement approved by the Commissioner or 20% of the paid-up capital of the issuing corporation, whichever is lesser, unless otherwise approved by the Commissioner.
<p>Section 197- For foreign insurance companies, at least 50% of securities shall consists of bonds or other instruments of debt of the government of the Philippines, its political subdivisions and instrumentalities or of GOCC and entities including BSP.</p> <p>For foreign insurance companies, the total investment in any registered enterprise shall not exceed 20% of the net worth of the said foreign insurance company nor 20% of the capital of the registered enterprise unless previously authorized in writing by the Commissioner.</p>	<p>Section 199- For foreign insurance companies, after satisfying the capital investment requirement, <b>investment in stocks or bonds</b> of any single entity shall, in the aggregate not exceed 20% of the net worth of the investing company or 20% of the capital of the issuing company, unless otherwise approved in writing by the Commissioner.</p>	<p>CL No. 2014-21 - Excess of 20%-20% limitation is classified as surplus investment subject to prior approval of the Commissioner.</p>
<p>Section 209 - For domestic insurance companies, a total of 25% of the minimum net worth required shall be invested</p>	<p>Section 210 (b) - <b>Securities issued by a</b></p>	<p>Section 210 (b) and CL No. 2014-21 - Excess of 20%-20% limitation is classified as surplus investment subject to</p>

<b>Capital Investment</b>	<b>Legal Reserve Investment</b>	<b>Surplus Investment (Require Prior Approval of the Insurance Commissioner)</b>
<p>in securities, satisfactory to the Commissioner, consisting of bonds or other instruments of debts of the government of the Philippines, or its political subdivisions or instrumentalities or of government-owned and -controlled corporations and entities, including BSP.</p>	<p><b>registered enterprise<sup>1</sup>, as defined in Executive Order (EO) No. 226;</b> The total investment of an insurance company in any registered enterprise shall not exceed 20% of the net worth of the company's latest financial statement nor 20% of the paid up capital of the registered enterprise excluding the intended investment, unless previously authorized by the Commissioner: Provided further, that such investment, free from any lien or encumbrance, shall be at least equal in amount to the aggregate amount of: (1) its legal reserve, as provided in Section 219, and (2) its reserve fund held from reinsurance as provided for in the pertinent treaty provision in the case of reinsurance ceded to authorized insurers.</p>	<p>prior approval of the Commissioner.</p>
	<p><b>Section 206 (b) (5) - Preferred or guaranteed stocks of any solvent corporation or institution created or existing under the laws</b></p>	<p>Excess of the 50% limitation</p>

<sup>1</sup> "Registered Enterprises" shall mean any individual, partnership, cooperative, corporation or other entity incorporated and/or organized and existing under Philippine laws; and registered with the Board in accordance with this Book: Provided, however, That the term "registered enterprise" shall not include commercial banks, savings and mortgage banks, rural banks, savings and loan associations, building and loan associations, developmental banks, trust companies, investment banks, finance companies, brokers and dealers in securities, consumers cooperatives and credit unions, and other business organizations whose principal purpose or principal source of income is to receive deposits, lend or borrow money, buy and sell or otherwise deal, trade or invest in common or preferred stocks, debentures, bonds or other marketable instruments generally recognized as securities, or discharge other similar intermediary, trust or fiduciary functions. (Article 11 of E.O. 226)

<b>Capital Investment</b>	<b>Legal Reserve Investment</b>	<b>Surplus Investment</b> (Require Prior Approval of the Insurance Commissioner)
	<b>of the Philippines;</b> Provided, if the stocks are guaranteed, the amount of stocks so guaranteed is not in excess of 50% of the amount of the preferred or common stocks, as the case may be, of the guaranteeing corporation .	
	CL No. 2014-50 - <b>Investments in Mutual Funds;</b> provided that the aggregate placement based on the latest synopsis does not exceed 20% of the net worth.	Excess of the 20% limitation
	CL No. 2014-50 - <b>Unit Investment Trust Funds;</b> provided that the aggregate placement based on the latest synopsis does not exceed 20% of the net worth.	Excess of the 20% limitation
	Section 210 (a) - <b>Real Properties which serve as its main place of business and/or branch offices;</b> provided that such investment shall not in the overall exceed 20% of its net worth as shown by its latest financial statement approved by the Commissioner.	CL No. 2014-21 - Excess of the 20% limitation
		CL No. 2015-42 - <b>Salary Loans (Teachers under Department of Education)</b> subject to the conditions provided under CL No. 2015-42; provided that the aggregate amount of loans shall not exceed 20% of the net worth as shown in the latest approved synopsis.
		<b>In addition to the assets enumerated in Section 202</b>

<b>Capital Investment</b>	<b>Legal Reserve Investment</b>	<b>Surplus Investment</b> (Require Prior Approval of the Insurance Commissioner)
		<p data-bbox="1008 331 1444 766"><b>of the Amended Insurance Code, the ff. Financial Assistance Program for Officers, Employees and for Sales Associates under contractual relationships provided that the aggregate amount of these loans shall not exceed 6% of the net worth as shown in its latest approved synopsis (CL No. 2014-20):</b></p> <ul data-bbox="1066 772 1444 1393" style="list-style-type: none"> <li data-bbox="1066 772 1444 952">• <b>Car loans/ lease purchase plans subject to a maximum availment per borrower;</b></li> <li data-bbox="1066 958 1444 1025">• <b>Financial assistance/ emergency loans;</b></li> <li data-bbox="1066 1032 1444 1281">• <b>Loans for the purchase of computers and office equipment, secured by chattel mortgage over such equipment; and</b></li> <li data-bbox="1066 1288 1444 1393">• <b>Salary loans up to a maximum of six (6) months salary.</b></li> </ul>

Note: Section 213 of the Amended Insurance Code provides that any investment made in violation of the applicable provision of Title 4: Investments shall be considered non-admitted assets.

### 3. Limitations in Assets under the Amended Insurance Code and Circular Letters

Description	Non-admitted Assets
3.1. Electronic Data Processing (EDP) Machines (IT Equipment)	Net book value exceeding 5% of the Total Admitted Assets (TAA) based on the latest approved synopsis (CL No. 2014-18)
3.2. Premiums Receivable account (General agents, direct agents, ordinary agents and insurance brokers)	The amount of premium (net of tax ) for policies covering over ninety (90) days due from inception as of the cut-off date (CL No. 2014-17)
3.3. Reinsurance accounts from unauthorized/ suspended companies or from unauthorized foreign reinsurers without resident agents	Excess of Reinsurance Assets over Reinsurance Liabilities (Section 202 [f])

### 4. Other Non-Admitted Assets

- 4.1. Assets owned by the non-life insurance and professional reinsurance companies without prior approval of the Insurance Commissioner such as:
  - 4.1.1. Those investments under CL No. 2014-21 Item No. (2), (2.1) to (2.10);
  - 4.1.2. In excess of the limitations in Item Nos. (2) and (3.1);
  - 4.1.3. Investment Property; and
  - 4.1.4. Other assets, securities and investments owned by non-life insurance and professional reinsurance companies where prior approval is deemed necessary.
- 4.2. Excess of loans secured by collaterals other than real estate securities made to any person, corporation or association, with maturity beyond ten (10) years (CL No. 2014-22).
- 4.3. Excess of loans secured by collaterals other than real estate securities made to any person, corporation or association, beyond the following amounts (CL No. 2014-22):
  - 100% of the market value of bonds or other instruments of indebtedness of the Philippine government or its political subdivisions authorized by law to issue bonds or upon bonds or other instruments of debt of government-owned or controlled corporations and entities including the BSP;



- 90% of the market value of bonds or other instruments of indebtedness of solvent private entities as are specified under Section 206 of the Amended Insurance Code; and
  - 75% of the market value of stocks of listed corporations as are specified in Section 206 of the Amended Insurance Code.
- 4.4. Foreclosed real estate properties held for more than twenty (20) years after the title has been transferred to the insurance company (Section 206 [a]);
- 4.5. Excess of the aggregate amount of foreign currency denominated investments beyond 20% of the latest verified total admitted assets (IC CL No. 2014-19 dated 15 May 2014);
- 4.6. Cash in bank with liens and encumbrances;
- 4.7. Pension Assets in excess of liability
- 4.3.1 Defined Benefit Plan;
  - 4.3.2 Defined Contribution Plan;
  - 4.3.3 Other similar assets.
- 4.8. All non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement submitted by non-life insurance and professional reinsurance companies to the Commissioner, or in any insurance examiner's report to him, shall also be reported, to the extent of the value disallowed as deductions from the gross assets of such non-life insurance and professional reinsurance companies, except where the Commissioner permits a reserve to be carried among the liabilities of such non-life insurance and professional reinsurance companies in lieu of any such deduction (Paragraph 2 of Section 203).

## **5. Recognition, Measurement and Presentation**

The non-admitted assets as enumerated above should be recognized, measured and presented based on the Financial Reporting Framework (FRF) as prescribed under CL No. 2016-65.

This Circular shall serve as a guide for the accountants or its equivalent in the preparation of the new regulatory reportorial requirements.

## **6. Effectivity**

This Circular shall take effect immediately.

**DENNIS B. FUNA**  
Insurance Commissioner