



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



**ADVISORY NO. 19 - 2017**

**TO : ALL LIFE INSURANCE 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 LIFE INSURANCE COMPANIES**

**DATE : 18 September 2017**

Section 189 of the Amended Insurance Code provides that all insurance 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.

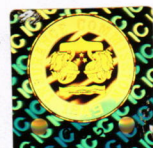
In relation thereto, you are hereby directed to provide your comments on the attached draft Circular on "GUIDELINES IN THE DETERMINATION OF THE NON-ADMITTED ASSETS OF LIFE INSURANCE COMPANIES" on or before 15 October 2017. Comments shall follow the standard format as follows:

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

The comments shall be submitted to Mr. Carlo F. Garcia ([cf.garcia@insurance.gov.ph](mailto:cf.garcia@insurance.gov.ph)) or Ms. Muriel A. Bacolod ([ma.bacolod@insurance.gov.ph](mailto:ma.bacolod@insurance.gov.ph)). For inquiries and questions, please call Life/MBAs/Trust Division at +(632) 523-8462 to 70 local 108 or 109.

For strict compliance.

  
**DENNIS B. FUNA**  
Insurance Commissioner



Attachment: Draft Circular Letter



Republic of the Philippines  
Department of Finance  
**INSURANCE COMMISSION**



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Superseded:	None

### CIRCULAR LETTER

**TO : ALL LIFE INSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES**

**SUBJECT : GUIDELINES IN THE DETERMINATION OF NON-ADMITTED ASSETS OF LIFE INSURANCE 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 and the Circular Letter (CL) No. 2016-65 dated 28 December 2016 on "Financial Reporting Framework under Section 189 of the Amended Insurance Code" and CL No. 2016-68 dated 28 December 2016 on "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 networth and RBC2 ratio of life insurance companies:

- 1. The following assets under Section 203 of the Amended Insurance Code shall in no case be allowed as admitted assets:**
  - 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 assets that rely on the future profitability of:
      - 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;
  - 1.2.3. Prepaid/Deferred input VAT;
  - 1.2.4. Contract/Rental deposits;
  - 1.2.5. Postage and documentary stamps; and/or
  - 1.2.6. Other prepaid and deferred charges that fall within the definition of (1.2).
- 1.3. Advances and receivables, which are not fully secured nor 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 and 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 life insurance companies, owned by them (treasury shares), or any 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 companies 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 supporting documents.
  - 1.5.3. Furniture, furnishings and fixtures;
  - 1.5.4. Safes;
  - 1.5.5. Transportation equipment;
  - 1.5.6. Other equipment, except electronic data processing (EDP) equipment and/or components that are considered as admitted assets in CL No. 2014-18 dated 15 May 2014;
  - 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 unpaid after the date of statement; and
- 1.7. The amount, if any, by which the aggregate value of assets and/or investments as carried in the ledger assets of life insurance companies

exceeds what is allowed under Sections 2 and 3 of this Circular and those allowed under the rules of the Insurance Commissioner.

2. The investments below do not require the approval of the Insurance Commissioner, provided that amounts shall not be in excess of the conditions/limitations and other fundamental requirements set forth in the said provisions of the Amended Insurance Code. Any amount in violation of the applicable provisions of Title IV of Chapter III of the Amended Insurance Code and in excess of the conditions/limitations in investments and other requirements of life insurance companies below, shall be considered as non-admitted assets, unless approved by the Insurance Commissioner:

APPLICABLE SECTION IN R.A. NO. 10607	NATURE OF INVESTMENT	PARTICULARS	CONDITION/LIMIT	OTHER REQUIREMENT
a. Section 199	Reserve investment	Investment (by foreign insurance company) in classes of Philippine securities described in Section 206	Investment in stocks or bonds of any single entity shall in the aggregate not exceed 20% of the networth of the investing company or 20% of the capital of the issuing company, whichever is lesser, unless approved in writing by the Insurance Commissioner	The securities purchased and kept in the Philippines shall not be sent out of the territorial jurisdiction of the Philippines without the written consent of the Insurance Commissioner
b. Section 204	Reserve investment	Policy loans	Allowed upon security of the value of its policy such sum as may be determined pursuant to the provisions of the policy	Policy loan balance must not exceed cash surrender value, and the corresponding reserves is set-up
c. Section 204 (a)	Reserve investment	Loans upon security of first mortgages or deeds of trust of registered, unencumbered, improved or unimproved real estate including condominiums	The amount of loan secured by real estate mortgage over a non-agricultural land shall not exceed 70% of its appraised value	Improvements must belong to the owner of the land; Owner of the improvements signs the deed of mortgage.

d. Section 204 (b)	Reserve investment	Loans upon security of first mortgages or deeds of trust of actually cultivated, improved and unencumbered agricultural lands in the Philippines	The amount of loan secured by real estate mortgage over an agricultural land shall not exceed 40% of its market value	
e. Section 204 (c)	Reserve investment	Loans upon security of purchase money mortgages, lease purchase agreements or similar securities executed or received by it on account of the sale or exchange of real property acquired pursuant to Sections 206 and 208		
f. Section 204 (d)	Reserve investment	Loans upon security of bonds or other instruments issued or guaranteed by the Government of the Philippines or its political subdivisions		
g. Section 204 (e)	Reserve investment	Loans upon security of obligations issued or guaranteed by universal banks, commercial banks, offshore banking units, investment houses or other financial intermediaries duly registered with the Bangko Sentral ng Pilipinas (BSP)		
h. Section 204 (h)	Reserve investment	Loans upon security of pledges of shares of stocks, bonds or other instruments of indebtedness specified in Section 209		
i. Section 204 (i)	Reserve investment	Loans upon security of chattel mortgages over equipment not more than 3 years old		



j.	Sections 205	Reserve investment	Loan made on the security of real estate with title to such real estate being registered in accordance with the existing Land Registration Act, or shall have been previously registered under the provision of the existing Mortgage Law and the lien or interest of the insurance company as mortgagee has been registered		
k.	Section 206 (a)	Reserve investment	Real / personal property acquired by reason of loan		
l.	Section 206 (b) (1)	Reserve investment	Real properties which serve as its main place of business and/or branch offices	Shall not exceed 20% of its networth as shown by its latest financial statement approved by the Insurance Commissioner	
m.	Section 206 (b) (2)	Reserve investment	Bonds of other instruments of indebtedness of the Government of the Philippines or its political subdivisions authorized by law to issue bonds at the reasonable market value		
n.	Section 206 (b) (3)	Reserve investment	Bonds or other instruments of debt of GOCCs and entities, including BSP		
o.	Section 206 (b) (4)	Reserve investment	Bonds, debentures or other instruments of indebtedness of any solvent corporation or institution	Shall not exceed 25% of the total admitted assets of such insurer as of December 31 next preceding the date of investment	

p.	Section 206 (b) (5)	Reserve investment	Preferred or guaranteed stocks of any solvent corporation or institution created or existing under the laws of the Philippines	If guaranteed, the amount of stocks so guaranteed shall not exceed 50% of the preferred or common stocks of the guaranteeing corporation; Shall not invest in/loan upon preferred or guaranteed stocks of any solvent corporation or institution exceeding 10% of the total admitted assets of such insurer as of December 31 next preceding the date of if such investment	
q.	Section 206 (b) (6)	Reserve investment	Common stocks of any solvent corporation or institution created or existing under the laws of the Philippines	Investment in or loan upon the obligations of any one corporation or institution in common stocks of any solvent corporation or institution not exceeding 10% of the total admitted assets of such insurer as of December 31 next preceding the date of issuance	

r.	Sections 206 (b) (7) and 212	Reserve investment	Securities issued by a registered enterprise <sup>1</sup> , as defined in Executive Order No. 226 (Omnibus Investment Code of 1987)	May invest in such amounts as may be approved by the Insurance Commissioner	
s.	Section 206 (b) (8)	Reserve investment	Certificates, notes and other obligations issued by trustees or receivers of any institution created or existing under the laws of the Philippines which, or the assets of which, are being administered under the direction of any court having jurisdiction	Such certificates, notes or other obligations are adequately secured as to principal and interest	
t.	Section 206 (b) (9)	Reserve investment	Equipment trust obligations or certificates which are adequately secured or other adequately secured instruments evidencing an interest in equipment wholly or in part within the Philippines	There shall be a right to receive determined portions of rental, purchase or fixed obligatory payments for the use or purchase of such equipment	
u.	Section 206 (b) (10)	Reserve investment	Any obligation of any corporation or institution created or existing under the laws of the Philippines	On the date of acquisition by the insurer, must be adequately secured and has qualities and characteristics wherein the speculative elements are not predominant	

<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 of Investments (BOI) in accordance with Book I (Investments with Incentives) of Executive Order No. 226: 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 Executive Order No. 226)



v.	Section 207 (2)	Reserve investment	Equities of other financial institutions listed in the Philippine Stock Exchange		
w.	Section 208 (a)	Reserve investment	Housing projects	In connection, company may acquire land or any interest therein by purchase, lease or otherwise, or use land acquired pursuant to any other provision of the RA No. 10607	
x.	Section 208 (b)	Reserve investment	Other income producing real estate properties	In connection, company may acquire real property to be improved or developed for the production of income, subject to the condition that the cost of each parcel or real property so acquired under the authority of Section 208 (a) of RA No. 10607, including the estimated cost to the company of the improvement or development thereof, when added to the book value of all other real property held by it pursuant to Section 208 (b) of RA No. 10607, shall not exceed 25% of its admitted assets as of 31st day of December next preceding	

3. The following investments shall be considered non-admitted assets unless prior approval from the Insurance Commissioner is obtained; and provided further that amounts shall not be in excess of the conditions and limitations in investments of life insurance companies below, unless excess is approved by the Insurance Commissioner:

APPLICABLE SECTION IN R.A. NO. 10607 OR CIRCULAR LETTER	APPROVAL REQUIRED FOR	NATURE ONCE APPROVED
a. Sections 197-198	Foreign insurance companies with total investment in any registered enterprise exceeding the 20% - 20% limitations set forth herein	Reserve investment or Surplus investment
b. Section 199	Foreign insurance companies with investment in stocks or bonds of any single entity exceeding the 20% - 20% limitations set forth herein	Reserve investment or Surplus investment
c. Section 202 (j)	Investments in mutual funds, real estate investment trusts, salary loans <sup>2</sup> , unit investment trust funds and special deposit accounts, subject to the conditions as may be provided by the Insurance Commissioner <sup>3</sup>	Reserve investment or Surplus investment
d. Section 204 (f)	Obligations issued/guaranteed by foreign banks or corporations with total networth of at least US\$150,000,000.00 or as prescribed by the Insurance Commissioner	Reserve investment or Surplus investment
e. Section 204 (g)	Assignments of monetary instruments such as cash deposit, deposit certificates or other similar instruments of universal banks, commercial banks, investments houses or other financial intermediaries duly registered with the BSP	Reserve investment or Surplus investment

<sup>2</sup> Salary loans specifically extended to Department of Education (DepEd) teachers must comply with the conditions set forth in IC CL No. 2017-42 dated 22 August 2017.

<sup>3</sup> Investments in mutual funds and unit investment trust funds must comply with the conditions set forth in IC CL No. 2014-50 dated 11 December 2014.

f.	Sections 206 (b) (11) and 204 (j)	Other securities and investments as may be approved by the Insurance Commissioner	Reserve investment or Surplus investment
g.	Section 207 (1)	Equities of other financial institutions not listed in the Philippine Stock Exchange	Reserve investment or Surplus investment
h.	Section 207 (2)	Long-term debt instruments	Reserve investment or Surplus investment
i.	Section 299	Transactions between a controlled insurer and any person in its holding company system involving: sales, purchases, exchanges, loans or extension of credit or investments, involving 5% or more of the insurer's admitted assets as of 31st day of December next preceding	Reserve investment or Surplus investment
j.	Section 300	Transactions between a controlled insurer and any person in its holding company system entered into at least 30 days prior thereto (or such shorter period as he may permit, and he has not disapproved it within such period), involving: sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than 1/2 of 1% but less than 5% of the insurer's admitted assets as of the 31st day of December next preceding	Reserve investment or Surplus investment
k.	CL No. 2014-20	Financial assistance program for officers, employees and for sales associates under contractual relationship	Surplus investment
l.	CL No. 2014-21 Item 2.10	Such other securities not included in CL No. 2014-21 Item 1	Reserve investment or Surplus investment
m.	CL No. 2014-30	Exchange Traded Funds (ETFs) as additional investment outlet	
n.	CL No. 2015-41-A	Investments under Investment Management Agreement (IMA)	

o.	CL No. 2015-56	Investments in derivative activities limited to forwards and swaps	
p.	CL No. 2016-16	Increase in the value of real estate properties	

**4. The following assets listed hereunder shall also be considered non-admitted:**

- 4.1. Investment property without prior approval from the Insurance Commissioner.
- 4.2. Other assets, securities and investments owned by life insurance companies where prior approval from the Insurance Commissioner is deemed necessary.
- 4.3. Excess of total cost of EDP, beyond 5% of total admitted assets based on the latest approved synopsis [Insurance Commission (IC) CL No. 2014-18 dated 15 May 2014];
- 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. Premiums due and uncollected not pursuant to CL No. 11-91 dated 28 May 1991;
- 4.6. Excess of policy loan balance, beyond the corresponding cash surrender value, provided the corresponding reserves are set-up;
- 4.7. Policy loans not found in seriatim list and/or without corresponding reserves;
- 4.8. Receivable from life insurance pools that are not based on certification of insurance pools;
- 4.9. Reinsurance accounts by the ceding insurer from insurer and reinsurer not authorized to transact business in the Philippines and insurer with suspended authority in the amount exceeding the liabilities carried by the ceding insurer [Section 202(f)];
- 4.10. Excess of loans secured by collaterals other than real estate securities made to any person, corporation or association, with maturity beyond 10 years (IC CL No. 2014-22 dated 15 May 2014);

- 4.11. Excess of loans secured by collaterals other than real estate securities made to any person, corporation or association, beyond the following amounts (IC CL No. 2014-22 dated 15 May 2014):
- 4.11.1. 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;
  - 4.11.2. 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
  - 4.11.3. 75% of the market value of stocks of listed corporations as are specified in Section 206 of the Amended Insurance Code.
- 4.12. Excess of the aggregate amount of loans related to financial assistance program (listed hereunder) for officers, employees and for sales associates under contractual relationship, beyond 6% of the networth as shown in the latest approved synopsis (IC CL No. 2014-20 dated 15 May 2014):
- 4.12.1. Car loans/lease-purchase plans for officers, employees and sales associates subject to a maximum availment per borrower;
  - 4.12.2. Financial assistance/emergency loans to officers, employees and sales associates;
  - 4.12.3. Loans to officers, employees and sales associates for the purchase of computers and office equipment, secured by chattel mortgage over such equipment; and
  - 4.12.4. Salary loans up to a maximum of six (6) months' salary.
- 4.13. Foreign currency denominated investments and insurance policies, the currency of which, is not acceptable to the BSP (IC CL No. 2014-19 dated 15 May 2014);
- 4.14. Excess of the aggregate amount of foreign currency denominated investments (listed hereunder), beyond 20% of the latest verified total admitted assets (IC CL No. 2014-19 dated 15 May 2014):
- 4.14.1. Issues of the Philippine government or Philippine government-owned or controlled corporations;

- 4.14.2. Issues of Philippine private corporations with credit rating of at least equivalent to that of the Philippine government;
- 4.14.3. Issues of foreign governments with a minimum credit rating of **BBB** as rated by S&P, **Baa2** as rated by Moody's, or **BBB** as rated by Fitch, or its equivalent as rated by other international credit rating agencies acceptable to the Insurance Commission; or one (1) notch above the credit rating of the Philippine government;
- 4.14.4. Issues of foreign corporations with a minimum credit rating of **BBB+** as rated by S&P, **Baa1** as rated by Moody's, or **BBB+** as rated by Fitch; or its equivalent as rated by other international credit rating agencies acceptable to the Insurance Commission, or two (2) notches above the credit rating of the Philippine government;
- 4.14.5. Loans against mortgage on real properties outside the Philippines considered surplus investments; and in which the laws of the country where the property is located allow the lender to own real estate property in the event of foreclosure;
- 4.14.6. Loans granted to entities with a minimum credit rating of **BBB+** as rated by S&P, **Baa1** as rated by Moody's, or **BBB+** as rated by Fitch and guaranteed by a foreign bank with a minimum credit rating of **BBB+** by S&P, **Baa1** by Moody's, or **BBB+** by Fitch, or its equivalent as rated by other international credit rating agencies acceptable to the Insurance Commission; or two (2) notches above the credit rating of the Philippine government; and
- 4.14.7. Investments in venture capital (considered as surplus investments) if made in accordance with rules and regulations, and upon prior approval of the Insurance Commission.
- 4.15. Assets and investments with liens and encumbrances;
- 4.16. Pension assets in excess of pension liabilities:
  - 4.16.1. Defined benefit plan;
  - 4.16.2. Defined contribution plan; and
  - 4.16.3. Other similar assets.
- 4.17. 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 life insurance companies to the Insurance 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 life insurance companies, except where the Insurance Commissioner permits a reserve



to be carried among the liabilities of such life insurance companies in lieu of any such deduction (Paragraph 2 of Section 203).

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

The non-admitted assets, as enumerated above, shall be recognized, measured and presented based on the Financial Reporting Framework prescribed under CL No. 2016-65 dated 10 June 2015.

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.

[DRAFT ONLY. DO NOT SIGN.]

**DENNIS B. FUNA**  
Insurance Commissioner