



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
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Manila



PRESS RELEASE

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IC INCREASES INVESTMENT THRESHOLD OF PRE-NEED COMPANIES

Insurance Commissioner Dennis B. Funa recently issued Circular Letter No. 2017-28 mandating a 2% upward adjustment in the investment threshold allocation under the Pre-Need Code.

This upward adjustment increases allowable investment in long-term commercial paper from 15% to 17% of the total amount of the trust fund; in direct loan from 5% to 7% of the total amount of the trust fund; in equities from 30% to 32% of the total amount of trust fund; and in real estate from 10% to 12% of the total amount of the trust fund.

This adjustment is pursuant to the authority of the Insurance Commission to adjust the percentage allocation per category set forth under the Pre-Need Code which must not be in excess of two percentage (2%) points upward or downward and such adjustment must not be more often once every five (5) years.

As provided under the Pre-Need Code, the exposure limit in any particular issue shall not exceed ten percent (10%) of the allocated amount.

Commissioner Funa said that this increment in the threshold on investment allocations of pre-need companies was brought about by the troubling recent trend of flat and declining investment yields. Considering this situation and the current limit under the Pre-Need Code which prevent the trustee banks of pre-need companies from taking full advantage of instruments with higher returns, the Insurance Commission decided to increase the present threshold.

Commissioner Funa said that "This 2% across-the-board increase is significant and will give the much needed flexibility to the trustee banks of pre-need companies so they can maximize their gains on higher-yield channels without compromising the stability of the fund."

Under the Pre-Need Code, companies engaged in pre-need business are required to establish a trust fund to pay for the cost of benefits and services, termination values payable to planholders, and other costs necessary to ensure the delivery of benefits or services to planholders as provided for in the contracts.

All investments of the trust fund/s of a pre-need company are limited only to fixed income instruments, equities, and real estate to ensure the liquidity of the trust fund to guarantee the delivery of the benefits provided for under the plan contract and to

obtain sufficient capital growth to meet the growing actuarial reserve liabilities of a pre-need company. Fixed income instruments include government securities, savings/time deposits, commercial papers and direct loans.

Failure of a pre-need company to cover any deficiency in the trust fund may result in the imposition the payment of a penalty, in addition to other remedies exercisable by the Insurance Commission, such as suspending or revoking the license of a pre-need company or placing such company under conservatorship.

As of end of second quarter of 2016, the average placement of pre-need companies in government securities averaged to 51% of the total trust funds, while placements in other investment categories averaged to 49%.

The jurisdiction over pre-need companies was transferred from the Securities and Exchange Commission to the Insurance Commission by virtue of the Pre-Need of the Philippines which was approved on December 3, 2009.


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