



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
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IC ISSUES NEW GUIDELINES ON INVESTMENT IN REAL PROPERTIES

Non-life insurance companies may now invest their assets in real properties based on the recently signed Circular Letter of the Insurance Commission.

Insurance Commissioner Dennis B. Funa recently signed Circular Letter No. 2017-43 which prescribes for the parameters to be observed in cases of investments in real properties of non-life insurance companies.

According to Commissioner Funa, "The new guidelines now allow non-life insurance companies to invest their money in incoming-producing real properties, other than those utilized as its main place of business or offices, provided that the applicant non-life insurance company satisfies the conditions stated therein."

Under the said Circular Letter, only those non-life companies with a minimum net worth of Five Hundred Fifty Million Pesos (Php550 million) and have complied with the liquidity requirements may invest in income-producing real properties.

In addition, the Insurance Commission requires an applicant-insurance company to adopt a comprehensive liquidity risk framework duly approved by the Board of Directors.

Liquidity risk relates to the possibility that an insurer will be unable to realize assets to fund its obligations when they fall due.

To ensure compliance with liquidity requirements, an insurance company should adopt a comprehensive liquidity risk framework which contains strategies, policies and products that shall take into account any mismatch between the expected assets and liability cash flows, inability to sell assets quickly, and cash-flow positions, among others.

Commissioner Funa, however, clarified that such investment is subject to a twenty percent (20%) ceiling.

"The aggregate book value of investments in any income producing real property shall not exceed twenty percent (20%) of its total net worth of a non-life insurance company as shown in its latest financial statement approved by the IC. Included in the

computation of the threshold is the cost of improvement or development of the real property,” Commissioner Funa clarified.

An application for approval of investment in income-producing real property to be submitted to the IC must be accompanied by a five (5)-year projected income, intended occupants, copy of the proposed lease contract, and a copy of the certificate of title covering the property which must be in the name of the insurance company, among others.

According to Commissioner Funa, the new investment guidelines are intended to further enhance the capital build-up program of insurance companies and to provide a new investment option for non-life insurance companies.

“As traditional fixed income investments have generated declining returns in the low-yield environment, non-life insurance companies have been spurred to search for new investment opportunities,” said Commissioner Funa.

He added, “Easing the investment policy of non-life insurance companies in real properties will create a new revenue stream for the non-life insurance sector.”


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