



<b>Circular Letter (CL) No.:</b>	<b>2022-37</b>
<b>Date:</b>	<b>18 July 2022</b>
<b>Supersedes:</b>	<b>CL No. 08-2012 CL No. 2015-43 CL No. 2015-47</b>

## **CIRCULAR LETTER**

**TO :** ALL PRENEED COMPANIES AND ENTITIES AUTHORIZED TO ENGAGE IN TRUST OPERATIONS AND ACT AS TRUSTEE FOR PRE-NEED COMPANIES

**SUBJECT :** AMENDED GUIDELINES ON ALLOWABLE INVESTMENTS FOR PRE-NEED TRUST FUNDS

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**WHEREAS**, under Section 6 (c) of Republic Act (RA) No. 9829, known as the "Pre-Need Code of the Philippines ("Code")," the Insurance Commission (IC) has the power to regulate, supervise and monitor the operations and management of pre-need companies to ensure compliance with the provisions of the Pre-Need Code;

**WHEREAS**, the COVID-19 outbreak has recently been characterized by the World Health Organization as a pandemic;

**WHEREAS**, the IC recognizes that the pre-need industry plays a vital role in the financial and social security of the country;

**WHEREAS**, the IC conducted a study of the current CLs and rules on allowable investments of pre-need companies to align and make them consistent with current market practices;

**WHEREAS**, Section 30 of the Code requires that a trust fund per pre-need plan shall be established to ensure the delivery of the guaranteed benefits and services provided under a pre-need plan contract;

**WHEREAS**, paragraph 3 of Section 30 of the Code states that the trust fund shall at all times be sufficient to cover the required pre-need reserve;

**WHEREAS**, Section 34 of the Code provides that all investments of the trust fund/s of a pre-need company shall be limited to those listed in Section 34 (a) to (c).

**WHEREAS**, Section 34 of the Code also states that investments that are not enumerated in Section 34 (a) to (c) shall not be allowed unless prior written approval of the Commissioner had been secured;

**WHEREAS**, IC CL No. 08-2012 provides an updated and more flexible choice of investments for the trust fund of a pre-need company, subject to the rules and regulations that would ensure prudent investment management and protection of the interest of the plan holders;

**WHEREAS**, IC CL Nos. 2015-43 and 2015-47 need to be superseded to be consistent with the prudential requirements of the Code;

**WHEREAS**, under Section 6 (k) of the Code, the IC has the authority to prepare, approve, amend, or repeal rules, regulations and orders, and issue opinions and provide guidance on and supervise compliance with such rules, regulations, and orders;

**NOW, THEREFORE**, in view of all the foregoing and in accordance with the Insurance Commissioner's power under Section 6 of the Code, the following guidelines are hereby promulgated:

### **SECTION 1. SCOPE**

- 1.1. This CL covers the Allowable Investments of the trust funds of a pre-need company.
- 1.2. Allowable investments include the following:
  - i. Investments listed in Section 34 of the Code; and
  - ii. Other Allowable Investments under Section 2 of this CL.

### **SECTION 2. OTHER ALLOWABLE INVESTMENTS**

- 2.1. In addition to the list of allowable investments under Section 34 (a) to (c) of the Code, the following additional investments shall be allowed as Other Allowable Investments and shall be equal to the residual allocation as computed in Section 4 of this CL:
  - i. Other Equity Securities;  
  
Equity securities not included in Section 34 of the Code, provided, however, that the issuer is listed in the Philippine Stock Exchange and shall have a minimum credit rating of Baa by Philratings, or BBB by CRISP or an equivalent rating from a local or a foreign Credit-rating agency accredited by the Securities and Exchange Commission (SEC) or its international counterpart.
  - ii. Real Estate Investments Trust and Exchange Traded Funds;  
  
Philippine Stock Exchange (PSE)-listed Real Estate Investment Trust (REIT) and Exchange Traded Funds (ETF) approved by their respective regulatory agencies.

iii. Mutual Funds and Unit Investment Trust Funds; and

Mutual Funds duly registered with the SEC and local Unit Investment Trust Fund (UITF) approved by the Bangko Sentral ng Pilipinas (BSP), provided, however, that the underlying securities are all PHP-denominated.

iv. Other Debt Securities.

Debt securities not included under Section 34 of the Code, provided, however, that the issuer or the issue obtained a minimum credit rating of Baa by Philratings, or BBB by CRISP or an equivalent from a local or a foreign Credit-rating agency accredited by the SEC or its international counterpart.

Investments listed in Section 34 of the Code and Section 2.1 of this CL that do not meet the minimum prescribed conditions shall be allowed as investments in the Trust Fund, provided, that the total amount should not exceed five percent (5%) of the trust fund at acquisition cost after the consideration of limitations in Section 34 of the Code and Section 4 of this CL. Additionally, amounts in excess of the limitations set under Section 34 of the Code and Section 4 of this CL shall not qualify as Other Allowed Assets in the Trust Fund.

- 2.2. Other Allowable Investments under Section 2.1 do not require prior approval from the IC.
- 2.3. Assets listed or classified under Section 2 of this CL may be changed or amended by the IC in response to changes in the domestic and global market conditions.

**SECTION 3: TREATMENT OF EXISTING SERVICE ASSETS OF PRE-NEED COMPANIES**

- 3.1. Service Assets, as reference to the previous CL No. 08-2012, if any, recorded and recognized by the IC in the Trust Fund/s of pre-need companies, shall still be recognized as part of the Trust Funds for purposes of determining the Trust Fund sufficiency.
- 3.2. Companies shall liquidate the balances of Service Assets for a period of three (3) years from the effectivity of this CL.
- 3.3. Proceeds from the sale or liquidation of Service Assets shall be deposited directly to their respective Trust Fund/s.
- 3.4. A pre-need company is allowed to declare dividends, provided that the following conditions are met:
- a. That the pre-need company shall comply with the requirements of dividend payments of the IC; and

- b. That the pre-need company has liquidated the Service Assets within three (3) years. Otherwise, the maximum allowed to be declared and paid shall only be equal to the amount of Service Assets liquidated.

**SECTION 4: LIMITATIONS/CONCENTRATION AND OTHER CONDITIONS FOR RECOGNITION OF INVESTMENTS**

- 4.1. Investments listed under Section 34 (a) to (c) shall comply with the limits, conditions, and requirements set forth under Section 34 of the Code.
- 4.2. The basis of the computation for the limits of the instruments or investments shall be the acquisition cost of investments under Section 34 (a) to (c) and Other Allowable Investments under Section 2 of this CL. The value of the Service Assets referred to under Section 3 of this CL shall not be included in the computation of the limitations.
- 4.3. Other Allowable Investments shall be subject to the following limits:
  - i. The percentage of limit for Other Allowable Investments shall be the residual of the sum of the following less 100%:
    - a. sum of the actual allocation for government securities; and
    - b. sum of the actual allocations on investments under Section 34 (a) to (c) of the Code, subject to the maximum limits of the Code and any other pertinent CL issued.
  - ii. No deposit or investments in any single entity allocated to Other Allowable Investments shall exceed fifteen percent (15%) of the total value of the trust fund.
- 4.4. Limits on investments under Section 34 (a) to (c) of Code will be adjusted, subject to the provision provided under the last paragraph of Section 34 of the Code.

*“Provided, finally, That the Commission is authorized to adjust the percentage allocation per category set forth herein not in excess of two percentage (2%) points upward or downward and no oftener than once every five (5) years.”*

**SECTION 5. IMPLEMENTATION AND EFFECTIVITY**

- 5.1. This Circular Letter shall take effect immediately.
- 5.2. All other circulars, rulings, implementing rules and regulations, letters and memorandums that may be inconsistent with the foregoing provisions shall be deemed modified or amended accordingly.

**DENNIS B. FUNA**  
Insurance Commissioner

