



Advisory No.:	RS-2022-040
Classification:	Regulatory and Supervisory Advisory
Date:	28 October 2022

INSURANCE COMMISSION ADVISORY

TO : ALL REGULAR AND MICROINSURANCE MUTUAL BENEFIT ASSOCIATIONS (MBAs) AUTHORIZED TO TRANSACT BUSINESS IN THE PHILIPPINES

SUBJECT : DRAFT CIRCULAR LETTER (CL): INCREASE IN GUARANTY FUND OF REGULAR AND MICROINSURANCE MBAs

Insurance Memorandum Circular (IMC) No. 2-2006 dated 24 April 2006 was issued mandating all existing MBAs to increase their Guaranty Fund to Twelve Million Five Hundred Thousand Pesos (₱12,500,000.00) on or before 31 December 2006; while new MBAs or one that is sought to be rehabilitated must possess an initial Guaranty Fund equivalent to not less than 25% of the minimum paid-up capital required for new insurance companies or One Hundred Twenty Five Million Pesos (₱125,000,000.00) effective 01 July 2006.

Thereafter, IMC No. 9-2006 dated 25 October 2006 was issued requiring all microinsurance MBAs to possess a Guaranty Fund equivalent to not less than Five Million Pesos (₱5,000,000.00), which shall be maintained at all times. It further states that every year thereafter, all microinsurance MBAs must increase their Guaranty Fund by an amount equivalent to five percent (5%) of their gross premium collections until the amount of the Guaranty Fund reaches 12.5% of the required capital for domestic life insurance companies.

The disparity between the established regulations on regular and microinsurance MBAs necessitates an update and harmonization of the Guaranty Fund requirement. Moreover, the aforementioned ceiling of 12.5% is determined to be lower than the requirement under the Amended Insurance Code. Hence, there is a need to increase the existing Guaranty Fund to a maximum amount equal to 25% of the minimum net worth requirement for domestic life insurance companies.

Relative thereto, all regular and microinsurance MBAs are hereby requested to provide comments/feedback on the contents of the attached draft CL using the prescribed format below:

Section/Provision	Comment/s	Recommendation/s

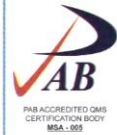
Comments/feedback shall be submitted to the Life/MBAs/Trust Division (LMTD) through the following e-mail addresses on or before 15 November 2022:

- | | |
|--------------------------------|--|
| 1. Mr. Allan M. Abella | am.abella@insurance.gov.ph |
| 2. Mr. Carlo F. Garcia | cf.garcia@insurance.gov.ph |
| 3. Mr. Mark Anthony J. Parinas | maj.parinass@insurance.gov.ph |



DENNIS B. FUNA
Insurance Commissioner





Circular Letter (CL) No.:	2022-
Date:	
Supersedes	IMC No.2-2006 dated 24 April 2006
Amends	IMC No.9-2006 dated 25 October 2006

CIRCULAR LETTER

TO : ALL REGULAR AND MICROINSURANCE MUTUAL BENEFIT ASSOCIATIONS (MBAs) AUTHORIZED TO TRANSACT BUSINESS IN THE PHILIPPINES

SUBJECT : INCREASE IN THE AMOUNT OF GUARANTY FUND OF REGULAR AND MICROINSURANCE MBAs

WHEREAS, Insurance Memorandum Circular (IMC) No. 2-2006 acknowledged and defined the increase in the amount of the guaranty fund of regular MBAs to protect the interest of their members, other stakeholders, and the general public;

WHEREAS, IMC No. 9-2006 provides the basis for the build-up of the guaranty fund and the ceiling of 12.5% of the required capital for domestic life insurance companies, which is determined to be lower than the requirement under the Amended Insurance Code;

WHEREAS, paragraph 4, Section 405 of the Amended Insurance Code also provides that, *“The Commissioner, prior to or after licensing a mutual benefit association, may require such association to increase its Guaranty Fund from the initial minimum amount required to an amount equal to the capital investment required of an existing domestic insurance company under Section 209...”*

WHEREAS, the Guaranty Fund Deposit of an MBA is equivalent to the Security Deposit of an Insurance Company, which would cover any valid benefit claim of its members;

WHEREAS, with the current economic environment and financial situation of the industry, the Commission necessitates an update and harmonization of the Guaranty Fund requirement to both microinsurance and regular MBAs for purposes of proportional regulation;

NOW THEREFORE, in view of all the foregoing and pursuant to the powers granted to the Insurance Commissioner under Section 437(d) of the Amended Insurance Code, the following rules and regulations are hereby promulgated:

SECTION 1. INITIAL GUARANTY FUND

Pursuant to Section 405 of the Amended Insurance Code, no MBA, whether regular or microinsurance, shall be issued a license to operate as such unless it has constituted and established an initial Guaranty Fund of Five Million Pesos (₱5,000,000.00) and deposited the same with the Insurance Commission in the form prescribed under Section 4 of this CL.

For this purpose, a microinsurance MBA is defined as an MBA wholly engaged in the business of providing microinsurance for its members. An MBA shall be considered wholly engaged in microinsurance if:

- (a) It only provides microinsurance policies to its members; and
- (b) It has at least five thousand (5,000) member-clients.

SECTION 2. INCREASE IN GUARANTY FUND

All MBAs with existing Certificates of Authority as of the date of issuance of this Circular Letter are required to annually increase their respective existing Guaranty Fund deposit with the IC starting audit year 2022 by an amount equivalent to five percent (5%) of the gross premium collected annually, subject to the maximum amount provided under Section 3 of this Circular Letter.

For purposes of computing the current year's Guaranty Fund deposit, five percent (5%) of the gross premium collected for the current year shall be added to verified/examined Guaranty Fund deposit of the immediately preceding year: Provided. That in no instance shall the Guaranty Fund deposit be less than the Guaranty Fund requirement.

SECTION 3. MAXIMUM REQUIRED GUARANTY FUND

A licensed MBA is required to increase its existing Guaranty Fund deposit with the IC from the initial minimum amount to an amount equal to the capital investment required of an existing domestic insurance company under Section 209 of the Amended Insurance Code.

The Commissioner may, however, provide a ceiling on the maximum Guaranty Fund requirement as he deems fit, which is equivalent to the aggregate sum insured for basic life policy or that of required under Section 209 of the Amended Insurance Code, whichever is lower.

SECTION 4. FORM OF GUARANTY FUND

All MBAs shall deposit with the IC the Guaranty Fund in either of the following forms:

a. Cash

All cash to be received by the Insurance Commissioner for this purpose must be placed in an interest-bearing deposit account deposited in a commercial bank under the name of the IC for the account of the MBA, provided that such bank obtained a minimum composite rating of three (3) from the Bangko Sentral ng Pilipinas' Supervisory Assessment Framework (SAFr)².

b. Government Securities (GS)

All government securities must be lodged under the IC's non-tradable sponsored client account of the National Registry of Scripless Securities System (NRoSS). In addition, the notarized deed of assignment, notarized affidavit of undertaking, and copies of bank confirmation of outright sale in relation to the newly purchased GS must be submitted to the IC in compliance with all relevant and existing CLs.

SECTION 5. RECORDING OF THE INCREASE IN GUARANTY FUND

For prudential reporting, build-up of the Guaranty Fund shall be recorded as follows:

Account Title	Debit	Credit
Unappropriated or Unassigned Fund Balance	xx	
Appropriated or Assigned Fund Balance – Guaranty Fund		xx

SECTION 6. ADDITIONAL PROVISIONS

The Insurance Commission may issue such other guidelines as it deems necessary to enforce the provisions of this CL.

SECTION 7. SEPARABILITY CLAUSE

If any provision of this Circular is held unconstitutional or invalid, the other provisions not otherwise affected shall remain in full force and effect.

SECTION 8. EFFECTIVITY

This CL shall take effect immediately.

DENNIS B. FUNA
Insurance Commissioner