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Amends:	None

CIRCULAR LETTER

TO : ALL MUTUAL BENEFIT ASSOCIATIONS DOING BUSINESS IN THE PHILIPPINES

SUBJECT : VALUATION STANDARDS FOR MUTUAL BENEFIT ASSOCIATION POLICY RESERVES

WHEREAS, Section 410 of the Republic Act No. 10607, otherwise known as "Amended Insurance Code," requires every mutual benefit association (MBA) to accumulate and maintain, out of the periodic dues collected from its members, sufficient reserves for the payment of claims or obligations;

WHEREAS, the reserve liability shall be established in accordance with actuarial procedures and shall be approved by the Insurance Commissioner;

NOW, THEREFORE, pursuant to the power granted to the Insurance Commissioner under Sections 410 and 437 of the Amended Insurance Code, the following guidelines are hereby promulgated:

Section 1. Valuation Standards for MBA Policy Reserves

I. Introduction

1. Every MBA supervised by the Insurance Commission (IC) shall value their policy reserves for Basic Life Insurance and Optional Life Insurance coverages at the end of each valuation period in accordance with this set of Valuation Standards.

II. Scope and Application

1. This set of Valuation Standards shall apply to all policies issued by MBAs.
2. The methods and valuation assumptions shall:

- a. Be appropriate to the type of business and its risk profile;
 - b. Include appropriate margins for adverse deviations in respect of the risks that arise under the insurance policy;
 - c. Be in accordance with the internationally accepted actuarial standards; and
 - d. Consider the generally accepted actuarial principles concerning the financial reporting framework promulgated by the Actuarial Society of the Philippines (ASP).
3. Unless the context otherwise requires, the following terms shall be taken to mean:
- a. "Mutual Benefit Association (MBA)" refers to the association established in accordance with the provisions under Title 1 Chapter VII of the Amended Insurance Code licensed and supervised by the IC.
 - b. "Basic Life Insurance (BLI)" refers to the principal or primary coverage provided to members by the MBA as indicated in the membership certificate or the Implementing Rules & Regulations (IRRs) of the MBA;
 - c. "Optional Life Insurance (OLI)" refers to the additional or supplementary coverage that members may purchase from the MBA; and
 - d. "Member's Equity Value (MEV)" refers to the portion or percentage of the total contribution on the Basic Life Insurance which is at least fifty (50%) of the total contribution, and the earnings or increase in the asset value of such equity.

III. Valuation Methodology

1. An Actuary duly accredited by the IC shall be responsible for determining the level of policy and claims reserves based on his/her professional valuation of the MBA's life insurance liabilities using a basis no less stringent than that prescribed in the following paragraphs.
2. Subject to paragraphs 3 to 4 below, the reserves for BLI and OLI policies shall be valued, where appropriate, using gross premium valuation. This is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross contributions/premiums arising from the policy discounted at the appropriate risk-free discount rate as of the valuation date. For this purpose, the expected future cash flows shall be determined using best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience.
3. For any BLI and OLI policy where the calculation based on paragraph 2 results in a negative reserve, the MBA shall appropriate from the free and unassigned fund balance an amount equal to the aggregate of the negative reserves calculated on a per-policy basis.
4. For any BLI and OLI policy with a term of one year or less, or regular pay policy with premiums that may change on a yearly basis, the reserve shall be calculated using the unearned premium method.

5. The liability for MEV which represents the total amount of obligations set-up by the MBA on membership certificates pertaining to at least 50% of the total contributions, as required under the amended Insurance Code, and any incremental amount declared by the MBA shall likewise be set-up by the MBA.
6. Subject to paragraphs 3, 4, and 5 above, for any BLI where the MEV is a component of the plan's benefit or termination value, the BLI reserves shall be equal to the calculated reserves, less the liability on the MEV.
7. A more conservative basis of valuation may be adopted by the Actuary resulting in higher policy reserves compared to the standards set out above, if, in his/her professional judgment, it is appropriate to do so.
8. Where the reserve of a life insurance policy cannot be appropriately valued using this set of valuation standards, the valuation shall be done using the basis approved by the IC.
9. Valuation of the In-Force file as of the End of the Prior Period using the Current Period discount rate shall be performed by the MBA and the resulting reserves shall be compared to the reserves as of the End of the Prior Period to determine the change in reserves due to the volatility in the discount rate as shown in Annex B.
10. Claims Liability for Incurred But Not Yet Reported (IBNR) claims for both BLI and OLI shall be determined by the Actuary using generally accepted actuarial principles which shall be disclosed in the Actuarial Valuation Report under Section VII of this CL.

IV. Data and Systems

1. The MBA's President, or responsible officer with a rank of at least Vice-President shall ensure that the MBA's database is properly maintained so that the data on business in force as well as claims data are accurate and complete. The President or the responsible officer shall furnish the data to the Actuary and grant him/her reasonable access to its database.
2. The Actuary shall apply reasonable tests on the data to check both its integrity and completeness before starting the valuation process.

V. Valuation Assumptions

1. Discount Rates

- a. The risk-free discount rate shall be used for all cash flows to determine the liability of the life insurance policy.
- b. The yield curve used as the basis for the risk-free discount rate shall be obtained from the following sources:

- i. for Philippine Peso policies: PHP BVAL Reference rates from Bloomberg
 - ii. for US Dollar policies: International Yield Curve (IYC) from Bloomberg
- c. The risk-free discount rate shall be the equivalent zero-coupon spot yield of the above yield curve with matching duration for durations less than or equal to 20 years. Duration is the term to maturity of each future cash flow.
- d. If the duration of the cash flow is more than 20 years, then the discount rate shall be based on a moving average of the 20-year government bond yield rate over a period to be prescribed by IC.
- e. Where yields at certain durations are not available, these yields shall be appropriately interpolated from available information.
- f. The IC shall provide the yield curve and risk-free discount rate, and may change the sources of the yield curve when appropriate.

2. Non-guaranteed Benefits

The level of non-guaranteed benefits under life insurance policies to be valued, including policy dividends, shall be determined with due regard to the MBA's duty to treat its policyholders fairly and meet policyholders' reasonable expectations.

3. Expenses

- a. The expense assumptions shall be based on the MBA's experience derived from its latest expense study. Otherwise, the basis and justification of the assumptions used shall be provided.
- b. A suitable non-negative expense inflation rate shall be used. All projected expected expenses shall be recognized in the valuation process.

4. Mortality and Morbidity

The mortality and morbidity assumptions shall be based on rates of mortality and morbidity that are appropriate to the nature of the risks covered based on the MBA's actual experience. If actual experience is not available or if the MBA's actual experience is inappropriate to be used, the basis and justification for the assumptions used shall be provided.

5. Lapse and/or Persistency

The lapse and/or persistency rates reflective of the MBA's actual experience shall be taken as the best estimate lapse and/or persistency assumption, with due regard to changing MBA practices and market

conditions. If lapse and/or persistency experience is not yet available, the basis and justification for the assumption used shall be provided.

VI. Margin for Adverse Deviation (MfAD)

1. Fixed MfAD-shall be used subject to a minimum of:
 - a. Interest: +/-10% of the discount rate. There shall be no MfAD if the yield rate is net of tax.
 - b. Expense: 10% of best estimate expenses
 - c. Other assumptions include but are not limited to mortality, morbidity, lapse, and conversion: +/-10% of best estimate assumptions
2. For mortality and lapse assumptions, the sign (positive or negative) of MfAD should be tested per group of products at the time of valuation. MfAD shall have the same sign for all durations per group of products. The product grouping shall be whole life, endowment, and term.
3. For interest assumption, the sign (positive or negative) of MfAD shall be tested on an aggregate basis.
4. The MfAD on expenses shall be on expense components that are exposed to uncertainty. The commissions payable to agents/distributors and taxes may not be subject to MfAD.
5. The provision for adverse deviation or the additional reserves due to the MfAD for each component (i.e., expense, mortality/morbidity, lapse, interest) shall be non-negative.
6. Any change in the fixed level for MfAD indicated in item 1 above shall be justified.
7. The provision and the methodology for determining the margin for adverse deviations for claims liability for IBNR must be based on generally accepted actuarial principles which shall be disclosed in the Actuarial Valuation Report under Part VII of Section I of this CL.

VII. Actuarial Valuation Report

1. The IC-accredited Actuary shall prepare an actuarial valuation report to be submitted to IC. The actuarial valuation report, at a minimum, shall contain the following information (see Annex A for details):
 - a. Scope of Review
 - b. Data Requirement
 - c. Valuation Methodology

- d. Valuation Assumptions
- e. Margin for Adverse Deviation (MfAD)
- f. Others
- g. Valuation Results and Discussion
- h. Certification by the Actuary
- i. Certification by the MBA's President or responsible officer with a rank of at least Vice-President

The Actuary shall provide the breakdown of the change in reserves due to the following: a) change in the discount rate; b) change in assumptions other than discount rate; and c) change in the in-force file.

An analysis of the valuation results shall be included in the Report of the Actuary.

- 2. The Certifications to be submitted by the Actuary and the President or responsible officer with a rank of at least Vice-President shall be duly notarized.
- 3. The Report shall be accompanied by Annex B.

Section 2. Separability

If any provision of the Guidelines or its application to any person or circumstances is for any reason held to be invalid, the remainder of the Guidelines and the application of its provisions to other persons or circumstances shall not be affected.

Section 3. Effectivity

This Circular shall take effect immediately.


REYNALDO A. REGALADO
Insurance Commissioner

