



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila



Circular Letter (CL) No.:	2018-46
Date:	12 September 2018
Supplements:	CL 2016-68

CIRCULAR LETTER

TO : ALL INSURANCE AND REINSURANCE COMPANIES DOING BUSINESS IN THE PHILIPPINES

SUBJECT : RISK-BASED CAPITAL REQUIREMENTS ON INVESTMENTS IN ASSOCIATES AND/OR SUBSIDIARIES UNDER THE REGULATION OF THE BANGKO SENTRAL NG PILIPINAS (BSP)

WHEREAS, the Insurance Commission (IC) issued Circular Letter (CL) Nos. 2016-65 and 2016-68, both dated 28 December 2016, to implement the Financial Reporting Framework (FRF) and Amended Risk-Based Capital (RBC2) Framework, respectively in order to assess the net worth and RBC compliances of insurance and reinsurance companies;

WHEREAS, insurance and reinsurance companies have investments in other entities approved by the IC and are held by the respective companies for the purpose of maintaining ownership, significant influence and control to the specific entity in the long term;

WHEREAS, in implementing the FRF and RBC2, these investments should be appropriately classified to determine their admissibility and the applicable risk charges;

WHEREAS, these investments are considered admitted in determining net worth and classified as investments in either associates or subsidiaries;

WHEREAS, the risk charges applicable on these investments are **0% and 60%** (at 99.5% confidence level) for associates or subsidiaries which are IC regulated entities and/or non-IC regulated entities respectively;

WHEREAS, the IC recognizes that investments in some of these non-insurance related or non-regulated entities are subjected to other capital adequacy requirements such as those implemented by the Bangko Sentral ng Pilipinas (BSP);

WHEREAS, the IC has access on the relevant information on these information (i.e. capital adequacy compliances) through the Financial Sector Forum (FSF) and through a Memorandum of Agreement with BSP on the exchange of information;

NOW, THEREFORE, pursuant to the authority vested to the Insurance Commissioner under Section 437 of the Amended Insurance Code, the following revised rules and regulations for investments in associates and/or subsidiaries not under IC's covered institutions in arriving at the risk-based capital requirement under the RBC2 Framework:

Section 1. Scope

- 1.1. This CL shall cover the rules and treatment of investments in associates and/or subsidiaries which are regulated by the BSP and their corresponding risk charges under the RBC2 Framework.

Section 2. Definition

- 2.1. Associates – An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies (IC CL 2016-65 on the: *Financial Reporting Framework*).
- 2.2. Subsidiaries – A subsidiary is an entity that is controlled by another entity (known as parent). The parent controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (IC CL 2016-65 on the: *Financial Reporting Framework*)

Section 3. Risk Charge: Treatment of Investments in Associate and/or Subsidiaries which are Regulated by the BSP under the RBC2 Framework

- 3.1. If the investment in Associate or Subsidiary is being **regulated by the Bangko Sentral ng Pilipinas (BSP)**, the following risk charges will be applied:

Classification	Year¹		
	2017	2018	2019
Universal Banks	3.00%	3.50%	4.00%
Commercial Banks	4.00%	4.50%	6.00%
Rural and Thrift Banks	7.50%	9.00%	12.00%

¹ Equivalent to the Counterparty Risk in the RBC2 Framework using the A+ to Unrated Classification as reference.

Classification	Year ¹		
	2017	2018	2019
Savings and Loans Associations	13.00%	14.00%	15.00%
Others	22.50%	24.00%	25.00%

- 3.2. Investment in Associates and Subsidiary which is not under the regulation of the BSP shall be subjected to the existing rates of as follows:

Year	Risk Charge
2017	50%
2018	55%
2019 onwards	60%

Section 4. Implementation and Effectivity

- 4.1. This CL shall take effect on the annual submission for 2017 and subsequent quarterly submissions covering the calendar year of 2018 onwards.
- 4.2. This CL shall be effective immediately.

For strict compliance.

DENNIS B. FUNA
Insurance Commissioner

