



Microinsurance MBA Association of the Phils., Inc.

**MANAGEMENT FORUM 2015
November 25, 2015**

Dealing with Regulated Investment Options

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Outline:

- Key changes of investment provision in the amended Insurance Code
- Recent investment guidelines applicable for MI – MBAs, issued by the Insurance Commission
- Investment approval process

Key Changes of Investment Provisions in the Amended Insurance Code (Relevant for MICRO MBAs)



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Title 3 Assets

ADMITTED ASSET

- Sec. 202 (a)

CASH IN BANKS

- Financially sound bank or trust company
- Duly authorized by the BSP



Title 3 Assets

- Sec. 202 (j)

Investments in :

- Mutual Funds
- Unit Investment Trust Funds (UITF)
- Real Estate Investment Trusts
- Salary Loans
- Special Deposit Accounts (SDA)



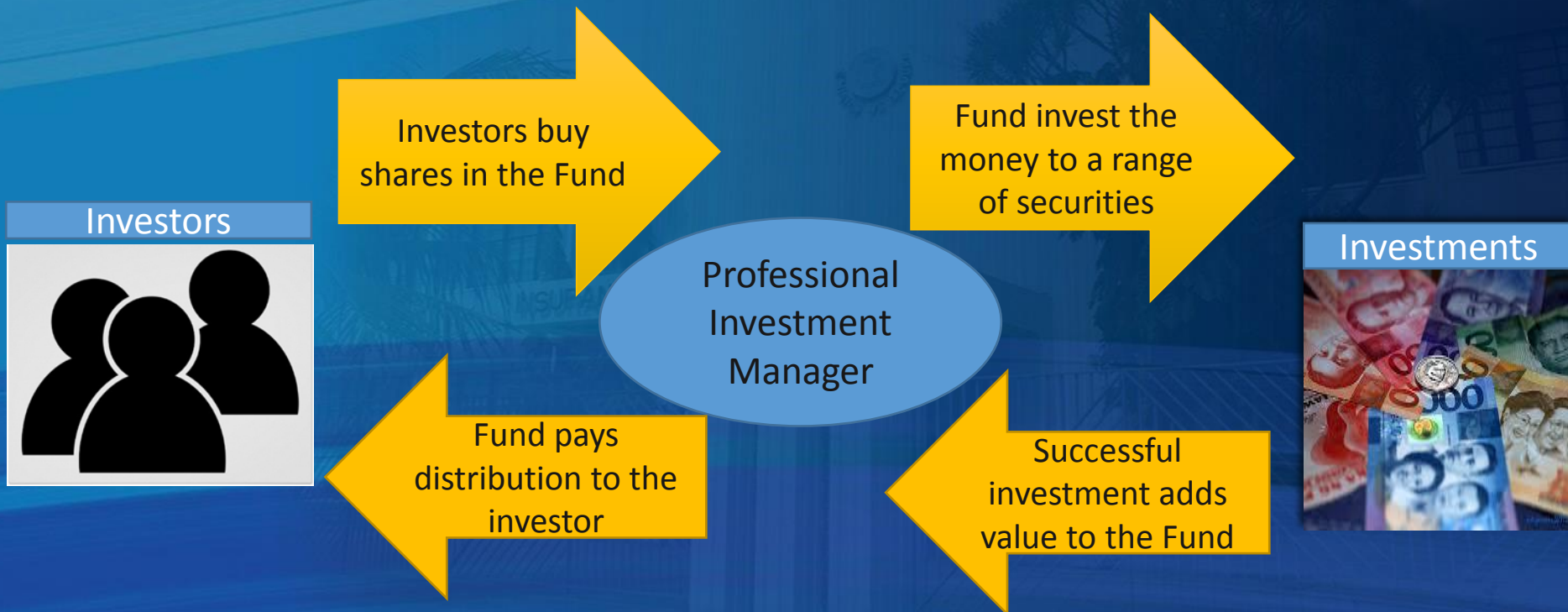
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MUTUAL FUND

- A pool of money professionally managed and invested in specific types of securities;
- Highly regulated by SEC;
- Typically long-term investment vehicles used by investors as tools for attaining long-term financial goals; and
- Investors become shareholders of the Fund.



Mutual Fund Concept



UNIT INVESTMENT TRUST FUND (UITF)

- An open-ended pooled trust funds denominated in pesos or any acceptable currency which are operated and administered by a trust entity.
- Duly regulated by BSP
- Can be invested in:
 - >Bank Deposits;
 - >Securities Issued by or guaranteed by Phil. Gov't /BSP;
 - >Tradeable securities issued by the gov't of a foreign country or political subdivision or any supranational entity; and
 - >Other tradeable investment outlets as the BSP may allow as provided for under BSP CL 675
- Proof of investment is a certificate of units participation.



SALARY LOAN

are loans granted to individuals on the basis of regular salary or other form of compensation where repayment would come from such future remuneration, either through salary deduction or other type of payment arrangement agreed upon by the borrower and lender.



REAL ESTATE INVESTMENT TRUST (REIT)

- A stock corporation established in accordance with the Corporate Code of the Philippines / IRR;
- The REIT Act enacted in 2009 was designed for the purpose of owning income-generating real-estate assets by placing it in a REIT company on which the public can invest;
- Investment in the REIT shall be by way of subscription to or purchase of shares of stock of the REIT; and
- The shares of stock of the REIT must be registered with SEC and listed in accordance with the rules of Exchange.



SPECIAL DEPOSIT ACCOUNTS (SDA)

- A fixed term deposit open to banks, non-banks with quasi-banking function and trust entities under BSP supervision;
- Trust entities of BSP-supervised Financial Institutions can offer SDA facility to its clients (natural and institutional persons);
- The interest rate is based on BSP published SDA rate; and
- Proof of ownership – Certificate of Participation.



Title 3 Assets

- Sec. 202 (k)

Other assets, deemed by the Commissioner to be readily realizable and available for the payment of losses and claims at values to be determined by him in a circular, rule or regulation.



EXCHANGE TRADED FUND (ETF)

is an open-end investment company that continually issues and redeems its shares of stock in creation units in exchange for delivery of a basket of securities representing an index whose performance the ETF endeavors to track.

(SEC Memo Cir. 10 Series 2012)



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Some Key Differences between MF, UITF and ETF

	MF	UITF	ETF
REGULATOR	SEC	BSP	SEC
PROOF OF OWNERSHIP	Common Shares	Units of Participation	Creation Units
MIN. INVESTMENT	Php 5,000 (by law)	Dependent on Fund Manager	If bought through the exchange, minimum investment would be dependent on price and board lot
INTRADAY TRADING	Purchase at NAV which is calculated at end of day	Purchase at NAV which is calculated at end of day	Can be traded intraday at market price; price guidance though iNAV disclosure any minute



Title 3 Assets

Sec 203 Generally Non-Admitted Assets

- Goodwill, Trade Name and other intangible assets;
- Prepaid or deferred charges;
- Advances to officers, employees, agents and other persons not secured;
- Treasury Stocks;
- Furniture and Fixtures, Supplies, Library;
- Checks, drafts, or notes returned by the banks which is unpaid after bank statement date; and
- Negative fluctuation/ revaluation reserve.



Title 4 Investments

- Sec. 204 (e)

Obligations issued or guaranteed by the commercial banks, universal banks, offshore banking units, investment houses or other financial intermediaries duly registered with the BSP.



Title 4 Investments

- Sec. 204 (g)

Assignments of monetary instruments such as cash deposits, deposit certificates or other similar instruments or universal banks, commercial banks, investment houses or other financial intermediaries duly registered with BSP.

- Sec. 204 (i)

Chattel mortgages over equipment not more than three (3) years old.



Title 4 Investments

- Sec. 206 (b)(1)

Real Properties for office use

-Not to exceed 20% of net worth

- Sec. 206 (b)(5)

Preferred Stock of Any Solvent Corporation

-Not to exceed 10% of TAA

- Sec. 206 (b)(6)

Common Stocks of Any Solvent Corporation

-Not to exceed 10% of TAA



Title 4 Investments

- Sec. 207
 1. Equities of other Financial Institutions
 2. Long-term debt instruments subject to IC prior approval



Recent Investment Guidelines Applicable for MI – MBAs, Issued by the Insurance Commission



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CL NO. 2014-23 dated May 15, 2014

- Submission of Monthly Report of Investments Made and Sold or Disposed of



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Circular Letter No. 2014-17 dated May 15, 2014

Superseded CL 24-94

- **Admitted Assets under the New Insurance Code (RA 10607)**

I. Under Section 202

- **Cash on hand/ in transit/ cash in a financially sound bank duly authorized by the BSP**
- Investments in securities, including money market instruments
- Real Property acquired or held/accrued income
- Policy loans and other policy assets and liens on policies, contracts or certificates of a life insurance company
- Net amount of uncollected and deferred premiums and annuity considerations due
- Reins. recoverable by the ceding insurer (authorized - full amt.: unauthorized net of the amt. w/held)
- Funds withheld by a ceding insurer under a reinsurance treaty
- Deposits or amounts recoverable from underwriting associations, syndicates, reinsurance funds or from any suspended banking institution
- EDP processing equipment
- **Investments in Mutual Fund, REIT, salary loans, UITF and SDAs**
- Other assets not inconsistent with the provisions of Section 202 which are deemed by the Commissioner to be readily available and realizable for the payment of claims.



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Circular Letter No. 2014-22 dated May 15, 2014

Superseded CL 1-87

- **Collateral Loans**

- No insurance company shall loan any of its money or deposits to a person, corporation or association, when the amount of loan is in excess of:
 - ❖ 100% of the MV of bonds or other instruments of indebtedness of the government of the Phils./political subdivision/GOCC/BSP
 - ❖ 90% of MV of bonds or other instruments of indebtedness of solvent private entities
 - ❖ 75% of MV of stocks of listed corp.
- CL granted for a period longer than 5 years shall be amortized
- No such loan shall have a maturity in excess of 10 years



Circular Letter No. 2014-18 dated May 15, 2014

Superseded CL 23-96

- **Electronic Data Processing (EDP) Equipment**

- **EDP Equipment/Components**

1. **Hardwares** (computer, server equipment, printer, network and data communication equipments, computer interface & peripherals)
2. **Softwares** (License Operating System, Licensed Office Application, License Security and Application/System tools, License Data Base Softwares, etc.
3. **Storage Media** (Network Access Storage, External Hard Disk, Optical Drives , Tape Drives, etc.

- **Properly documented**

- **AC to be amortized within a period of 5 years from the date of acquisition**

- **Total cost not to exceed 5% of the company's TAA based on latest approved synopsis.**

- **Acquisitions in excess of 5% subject to IC prior approval**



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Circular Letter No. 2014-20 dated May 15, 2014

Superseded CL 24-95

Financial Assistance Program for Officers, Employees and for Sales Associates under Contractual Relationships

➤ Composition

- 1. Car loans/lease- purchase plans subject to a maximum availment per borrower**
 - 2. Financial assistance/emergency loans**
 - 3. Loans for the purchase of computers and office equipment, secured by chattel mortgage over such equipment**
 - 4. Salary loans up to a maximum of 6 months salary**
- Aggregate amount of these loans shall not exceed 6% of the NW based on the latest approve synopsis**
- To be considered SI**



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Circular Letter No. 2014-21 dated May 15, 2014

INVESTMENTS UNDER THE AMENDED INSURANCE CODE

1. Investments which Do Not Require IC Prior Approval

- Provided they are in accordance with the conditions and limitations set forth therein.

2. Investments which Require IC prior approval



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Circular Letter No. 2014-21 dated May 15, 2014

Superseded 23-94

INVESTMENTS UNDER THE AMENDED INSURANCE CODE

- I. Investment which **do not require prior approval** of the Insurance Commission (IC)

For Life/Non-life companies:

1. Loans upon security of any of the following:

- First mortgage or deeds of trust of real estate, condo, cultivated agri. lands
- Bonds of RP Gov't or its political subdivisions
- Purchase money mortgages/Lease Purchase Agreement
- Obligations issued or guaranteed by the commercial banks, universal banks, offshore banking units, investment houses or other financial intermediaries duly registered with the Bangko Sentral ng Pilipinas
- Pledges of shares of stocks, bonds or other instruments of indebtedness
- Chattel mortgage over equipment not more than 3 years old.



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Cont.

INVESTMENTS UNDER THE AMENDED INSURANCE CODE

Investments which do not require prior approval of IC for Life/ Non-Life Companies

2. Real/personal property acquired by reason of loan
3. Lot and building for the office use
4. Bonds of RP gov't. or political subdivision/GOCC's/BSP
5. Bonds, preferred stocks and common stocks of
"solvent" corporations/institutions.
6. Securities issued by registered enterprise as defined in Executive
Order No. 226
7. Certificates, notes and other obligations issued by trustees or
receivers of any institution
8. Equipment trust obligations or certificates adequately secured
9. Equities of other financial institutions listed in the Philippine Stock
Exchange



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Cont.

Circular Letter No. 2014-21 dated May 15, 2014

Superseded CL 23-94

INVESTMENTS UNDER THE AMENDED INSURANCE CODE

- I. Investment which do not require prior approval of IC

For Life companies:

1. Policy Loans
2. Housing Projects
3. Other income producing real estates



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Circular Letter No. 2014-21 dated May 15, 2014

Superseded CL 23-94

INVESTMENTS UNDER THE AMENDED INSURANCE CODE

II. Investment which require prior approval of the IC

For Life/Non-life companies:

- Obligations issued/guaranteed by foreign banks or corporations with total net worth of at least US\$ 150,000,000.00 or as prescribed by IC
- Assignments of monetary instruments such as cash deposits, deposit certificates or other similar instruments of universal banks, investment houses or other financial intermediaries duly registered with the Bangko Sentral ng Pilipinas
- Investments in mutual funds, real estate investment trusts, salary loans, unit investment trust funds and special deposit accounts, subject to the conditions as may be provided by the Commissioner
- Transactions between a controlled insurer and any persons in its holding company system like loans or extension of credit or investment involving 5% or more of the insurer's PY TAA



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Cont.

Circular Letter No. 2014-21 dated May 15, 2014

Superseded CL 23-94

INVESTMENTS UNDER THE AMENDED INSURANCE CODE

II. Investment which *require prior approval* of the IC

For Life/Non-life companies:

- Equities of other financial institutions
- Long-term debt instruments
- Securities issued by any registered enterprises in such amounts as may be approved by the Commissioner
- Only investments in excess of the 20%-20% limitations set forth therein
- Such other securities as may be approved by the Commissioner



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Circular Letter No. 2014-19 dated May 15, 2014

Superseded CL 29-2005

AMENDED GUIDELINES FOR FOREIGN CURRENCY/FOREIGN DENOMINATED INVESTMENTS

1. Foreign Currencies Allowed

Only those currencies acceptable to BSP as part of its international reserves.

2. Allowed Foreign Currency Denominated Investments

2.1 Issues of the Phil. gov't/Phil. gov't owned or controlled corp.

2.2 Issues of Phil. private corp. w/ credits rating (cr) equivalent to that of Phil. gov't.

2.3 Issues of foreign gov't w/ minimum cr of BBB (S&P) or Baa2(Moody's) or BBB (Fitch) or one notch above the CR of Phil. Gov't.

2.4 Issues of foreign corp. w/ minimum of BBB+ (S&P) or Baa1 (Moody's) or BBB (Fitch) or two notches above the CR of the Phil. Gov't.

2.5 Loans against mortgages on RE outside Phils.

- only if the laws of the country where RE is located allow the lender to own real estate in the event of foreclosure.

2.6 Loans granted to entities and the foreign banks guaranteeing the loans

- both with min. CR of BBB+ (S&P) or Baa1 (Moody's) and BBB+ Fitch or its equivalent as rated by other international CR agencies acceptable to IC; or two notches above the CR of Phil. gov't.

2.7 Investments in Venture Capital

- if in accordance w/ rules and regulations and upon prior IC approval



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AMENDED GUIDELINES FOR FOREIGN DENOMINATED INVESTMENTS (CIRCULAR LETTER)

LIMITATION

Aggregate investments made for items 2.2 to 2.7 shall not exceed 20% of the TAA for life company and 20% of the NW for a non life co. based on the latest approved synopsis.



Circular Letter No. 2014-30 date issued July 8, 2014

Guidelines for Investing in Exchange Traded Fund

- Only ETF shares currently listed in PSE or recognized stock exchange, whether domestic or foreign, shall be allowed.
- Indices to be considered shall be limited to those linked with composite stock market indices
- Investments can be made in either primary or secondary shares of ETFs.
- The ETF must comply with the tracking error requirements and disclosures as may be prescribed by the Exchange where they are listed.



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Cont.

Circular Letter No. 2014-30 date issued July 8, 2014

Guidelines for Investing in Exchange Traded Fund

- The Fund Manager to have at least 3 years of solid experience in managing the exchange traded fund
- The ETF company shall obtain a one-time authorization from IC prior to engaging in ETF with prospective insurance/reinsurance company/MBA-investors
- Submission of Monthly portfolio reports on the EFT exposure on or before first ten (10) working days of the following month



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Cont.

Circular Letter No. 2014-30 date issued July 8, 2014

Guidelines for Investing in Exchange Traded Fund

- Documents to accompany the letter request to invest in ETF
 - a. Prospectus or latest registration statement;
 - b. Audited FS for at least 3 years;
 - c. Most recent list basket of securities of the index used; and
 - d. Designated Fund Manager.



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Circular Letter 2014-50 dated Dec. 11, 2014

INVESTMENTS IN MUTUAL FUNDS & UITF

- Mutual Funds with prior approval by SEC
- UITF with prior approval by BSP
- The said funds are placed in:
 - a. Fixed Income Securities
 - b. Equities
 - c. Combination of Fixed Income Securities and Equities
- Aggregate placements in each fund
 - 10% of TAA of Life Insurance Co. or MBA
 - 20% of NW of Non-Life Insurance Co. or Pre-Need Co.
- These shall be considered as Reserve Investments.



Circular Letter 2015-41A dated Aug. 4, 2015

INVESTMENTS UNDER INVESTMENT MANAGEMENT AGREEMENT (IMA)

- > Shall require IC prior approval
- > Investment/fund manager duly licensed/authorized by BSP
- > All investment under the agreement shall be in accordance with the New Insurance Code and other applicable circulars
- > Registered in Company's name

Documents for Submission:

- > Board Resolution
- > Pro-forma copy of IMA
- > 3 year audited Financial Statements of investment/fund manager



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Circular Letter No. 2015-42 dated August 5, 2015

SALARY LOANS EXTENDED TO DEPED TEACHERS

shall qualify as admitted asset subject to the following conditions:

- >Only insurance companies/MBA with funds representing earned surplus can extend salary loans to DepEd teachers;
- >Salary Loan Program shall be duly approved by the Board and covered by a MOA between the insurance co./MBA and the DepEd;
- >Loan to be paid regularly in equal installments; and
- >Aggregate amount of loan shall be valued according to their unpaid balances but shall not exceed 20% of the total assets of life co./MBA.



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Investment Approval Process



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Step 1: Receipt of Letter Request and Supporting Documents



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General Requirements

1. Private/Corporate Bonds, Mutual Funds, UITF, LTNCD's, Tier-2 Notes, etc.
 - Approval of SEC or BSP
 - Prospectus/Brochures
 - Audited Financial Statements for the past 3 years
 - Latest Credit Rating of the Issuer
2. Stocks (Common and Preferred) Issued by Solvent Corporations
 - Audited Financial Statements for the past 3 years
 - Latest Credit Rating of the Issuer



Cont.

3. Real Estate/Lot & Building for office use

- TCT or CCT in company's name
- Copy of Deed of Sale/Contract to Sell/Lease with Option to Purchase

4. Property Appraisal (Real Estate)

- Latest Independent's Appraiser Report
- Photocopy of latest tax declaration
- Real tax payment for current year

5. Loans (Salary, Calamity, Education etc.)

- Board Resolution
- Terms and Conditions
- Projected Income
- Proposed Loan Form



Step 2: Preparation and Issuance of Order of Payment Form

- For MBAs:

Processing Fee	Php 5,000.00
Legal Research Fund	<u>Php 50.00</u>
Total	Php 5,050.00



Step 3: Evaluation and Processing Request



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	Audited 2014	Audited 2013	Audited 2012	Criteria	Findings
1. Profitability				Positive for last 3 years	
Net Income					
2. Current Ratio				At least 1	
$\frac{\text{Current Assets}}{\text{Current Liabilities}}$					
3. Debt to Equity				Depending on the type of industry	
$\frac{\text{Total Debt}}{\text{Equity}}$					
4. Cash flow (from operations)				Consistentl y positive	
5. Financial Statement	unqualified	unqualified	unqualified	unqualified	



Regulatory Limitations:

	% of TAA
• Corporate Bonds/ Notes	25%
• Stocks	10%
• Real Estate	
-Housing Project/ Investment Purpose	25%
-Office Use	20%



Step 4:
Recommendation for
Approval/Denial/Deferral
of the request



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“Do not put all your eggs in one basket”



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THANK YOU!