[IC INSURANCE MEMORANDUM CIRCULAR NO. 6-2006, October 05, 2006]

ADOPTION OF RISK BASED CAPITAL FRAMEWORK FOR THE PHILIPPINE LIFE INSURANCE INDUSTRY

To establish the required amounts of capital to be maintained by life insurance companies in relation to their investment and insurance risks, the Insurance Commission, after consultation with the life insurance industry hereby approves the adoption of the Risk-Based Capital (RBC) Framework and issues the following rules and regulations pursuant to the powers vested in me by the provisions of Section 414 of the Insurance Code.

I. RBC Ratio and Networth

The investments and insurance risks of the company shall be classified under four (4) major categories.

- **A**. Asset Default Risk, denoted by C-1;
- **B**. Insurance Pricing Risk, denoted by C-2;
- **C**. Interest Rate Risk, denoted by C-3; and
- **D.** General Business Risk, denoted by C-4.

The RBC requirement is given by the formula:

RBC Requirement = (C1 + C3)2 + C22 + C4

The RBC ratio of a company shall be calculated as Networth divided by the RBC requirement as determined in accordance with RBC Exhibit Instructions and Disclosures (See Annex A[*]).

"Networth" shall include the company's paid-up capital, contributed and contingency surplus and unassigned surplus. Revaluation and fluctuation reserve accounts shall form part of networth only to the extent authorized by the Insurance Commissioner.

Every life insurance company is annually required to maintain a minimum RBC ratio of 100% and not fail the Trend Test as stated in (II.A.2) below.

II. Levels of Regulatory Intervention

The following levels of regulatory intervention then follow based on this ratio:

RBC Ratio = Y	Event	Description
100% < Y < 125 %	Trend Test	Linear extrapolation if next year's ratio <

		100%. If so, move to Company Action Event
75% < Y < 100%	Company Action	Submit RBC plan and financial projections. Company implements the plan.
50% < Y < 75%	Regulatory Action	IC authorized to examine company and issue Corrective Orders.
35% < Y < 50%	Authorized Control	IC authorized to take control of the company.
Y < 35%	Mandatory Control	IC required to take control of the company.

A. Company Action Event shall refer to any of the following events:

1. The RBC ratio of the company is less than 100% but not below 75%, or
2. The Trend Test has failed, which shall occur in the event that:

    a. The RBC ratio is less than 125% but is not below 100%;
    b. The RBC ratio has decreased over the past year, and
    c. The difference between RBC ratio and the decrease in the RBC ratio over the past year is less than 100%

A.1 In the event of a Company Action Event, the company shall file to the Commissioner within forty-five (45) days of the event a RBC plan that shall:

a. Identify the conditions that contributed to the event;
b. Contain proposals of corrective action that the company intends to take and that would be expected to result in the elimination of the event;
c. Provide projections of the company's Annual Statements for at least two (2) years with and without the proposed corrective actions; including but not limited to projections on the balance sheets, analysis of operations (total), surplus accounts, RBC Exhibits and lines of business information relevant to the RBC plan;
d. Identify the key assumptions impacting the company's projections and the sensitivity of the projections to the assumptions; and
e. Identify the quality of, and problems associated with, the company's business, including but not limited to its assets, anticipated business growth, surplus strain, extraordinary exposure to risk, mix of business and use of reinsurance, if any, in each case.

The Commissioner shall notify the company within the sixty (60 days upon submission of the RBC plan whether it shall be implemented or is unsatisfactory. In the latter case the Commission shall include reasons for the determination and proposed revisions to the RBC plan, and the company shall resubmit the RBC plan within thirty (30) days of notice.