

[**IC Circular Letter No. 2015-46, September 08, 2015**]

RULES IN THE APPLICATION OF SECTION 408, PARAGRAPH 3 OF THE AMENDED INSURANCE CODE ON FREE AND UNASSIGNED SURPLUS

*Adopted: 08 September 2015
Date Filed: 15 September 2015*

To implement Section 408, paragraph 3 of the Insurance Code, as amended (R.A. No. 10607), the following Rules are hereby promulgated:

Section 1. Applicable Provision. Section 408, paragraph 3 of the Insurance Code, as amended provides that:

"A mutual benefit association shall only maintain free and unassigned surplus of not more than twenty percent (20%) of its total liabilities as verified by the Commissioner. Any amount in excess shall be returned to the members by way of dividends, enhancing the equity value or providing benefits in kind and other relevant services. In addition, subject to the approval of the Commissioner, a mutual benefit association may allocate a portion for capacity building and research and development such as developing new products and services, upgrading and improving operating systems and equipment and continuing member education."

Section 2. Definition of Terms. As used herein, and unless the context otherwise requires, the following terms shall have the respective meaning hereinafter set forth or indicated:

- a) **Free and unassigned surplus.** - This represents the portion of the fund balance that is not restricted. Pursuant to Circular Letter No. 2014-41^[1] dated September 25, 2014, free and unassigned surplus of a Mutual Benefit Association (MBA) is reported under the account title "Free and Unassigned Fund Balance". For the purpose of this Rules, the term "free and unassigned surplus" shall be equivalent to and used interchangeably with "free and unassigned fund balance".
- b) **Fund Balance.** - As defined under Circular Letter No. 2014-41, this refers to the residual interest in the assets of an MBA after deducting all its liabilities. This represents the accumulated earnings of an MBA reduced by whatever losses an MBA may incur during a certain accounting period.
- c) **Members.**- This term shall be construed to mean as members of an