[IC INSURANCE MEMORANDUM CIRCULAR NO. 11-2006, December 08, 2006]

ADOPTION OF RISK-BASED CAPITAL FRAMEWORK FOR THE PHILIPPINE MUTUAL BENEFIT ASSOCIATIONS

To establish the required amounts of members' equity to be maintained by mutual benefit associations (MBAs) in relation to their investment and insurance risks, the Insurance Commission, after consultation with the MBAs 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 Members' Equity

The investments and insurance risks of the MBA 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 = v (C1 + C3) 2 + C2 2 + C4

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

"*Members' Equity*" is defined as Admitted Assets minus All Liabilities inclusive of Actuarial Reserves and other obligations under the policies and membership certificates.

Every MBA is annually required to maintain a minimum RBC ratio of 100% and not fail to 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%	T rend Test	Linear extrapolation if next yea r ’s ratio <100%. If so, move to MBA Action Event.
75% < Y < 100%	MBA Action	Submit RBC plan and financial projections. MBA implements the plan.
50% < Y < 75%	Regulatory Action	IC Authorized to examine the MBA and issue Corrective Orders.
35% < Y < 50%	Authorized Control	IC Authorized to take control of the MBA.
Y < 35%	Mandatory Control	IC required to take control of the MBA.

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

1. The RBC ratio of the MBA 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 the MBA Action Event, the MBA 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 MBA intends to take and that would be expected to result in the elimination of the event;
c. Provide projections of the MBA’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 MBA’s projections and the sensitivity of the projections to the assumptions; and
e. Identify the quality of, and problems associated with, the MBA’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 MBA within sixty (60) days upon submission of the RBC plan whether it shall be implemented or is unsatisfactory. In the latter case