



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

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| Circular Letter (CL) No.: | 2015-46          |
| Date:                     | 8 September 2015 |
| Amending:                 | None             |

**CIRCULAR LETTER**

**TO : ALL MUTUAL BENEFIT ASSOCIATIONS AUTHORIZED TO DO BUSINESS IN THE PHILIPPINES**

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

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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<sup>1</sup> 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”.

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<sup>1</sup> Entitled “Standard Chart of Accounts for MBAs”

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 MBA under the Basic Life Insurance Fund.

d) **Dividends.** - This term shall be construed to mean as any additional benefit, whether in cash or in kind, given to the members of an MBA. The term shall not be construed as dividends for stock corporations as defined under the Corporation Code of the Philippines and as dividends payable, if any, under a participating plan.

**Section 3. Limitation on the Free and Unassigned Surplus.** An MBA may maintain a free and unassigned surplus provided it shall not be more than twenty percent (20%) of its total liabilities.

**Section 4. Rule if Free and Unassigned Surplus is twenty percent (20%) or less of its total liabilities.** If the free and unassigned surplus of an MBA is twenty percent (20%) or less of the total liabilities, the same shall not be available for distribution to its members.

**Section 5. Rule if Free and Unassigned Surplus is more than the twenty percent (20%) of its total liabilities.** The following rules shall apply if the free and unassigned surplus of an MBA is more than the twenty percent (20%) ceiling:

**5.1. Mandatory Distribution without need of prior approval but subject to verification proceedings.** It shall be mandatory upon an MBA to return the amount in excess of the twenty percent (20%) ceiling to its members by way of any of the following: i) dividends as defined under Section 2 (d) of this Rules; ii) enhancement of equity value; or iii) providing benefits in kind and other relevant services, *Provided that*, prior to such distribution, the Insurance Commission has verified that there is such an excess in its free and unassigned surplus although no prior approval is required.

**5.2. Alternative Mode of Mandatory Distribution subject to prior approval.** An MBA may allocate a portion of the amount in excess of the twenty percent (20%) ceiling to the following: i) capacity building; ii) research and development; iii) upgrading and improving systems and equipment; and iv) continuing member education, *Provided that*, it has secured the prior approval of the Commissioner.

**5.3. Documentary Requirements.** An MBA must submit a certified true copy of the duly notarized Board Resolution authorizing such distribution. Furthermore, it must be established, based on its latest approved financial statement, that it is compliant with the following requirements, to wit: i) solvency; ii) risk-based capital ratio; iii) guaranty fund; and iv) reserves for basic and optional benefits.

**Section 6. Effectivity.** This Circular Letter shall be effective immediately.

All concerned should be guided accordingly.



**EMMANUEL F. DOOC**  
Insurance Commissioner