

Republic of the Philippines
DEPARTMENT OF FINANCE
Roxas Boulevard Corner Vito Cruz Street
Manila 1004

DEPARTMENT ORDER NO. 19 - 06

TO: INSURANCE AND REINSURANCE COMPANIES INTENDING TO DO BUSINESS AND TO BE REHABILITATED

SUBJECT: MINIMUM CAPITALIZATION REQUIREMENTS FOR NEW LIFE, NON-LIFE, AND REINSURANCE COMPANIES, AND THOSE TO BE REHABILITATED, PURSUANT TO SECTION 188 IN RELATION TO SECTION 184 OF THE INSURANCE CODE, AS AMENDED

WHEREAS, the startup operations of a new insurance or reinsurance company entail huge pressure on the company's resources and drain on its surplus, insurance being a capital-intensive business; to accelerate growth, a startup company's resources must be sufficient; it is essential for the long-term growth of the country's insurance industry for new entrants to attain sustainable levels of profitability the soonest possible time; this can only be achieved through sufficient and efficient allocation of resources;

WHEREAS, the operation in the country of insurance and reinsurance companies with adequate capitalization levels sustains public and investor confidence in the insurance industry and only sufficiently capitalized insurance companies can be competitive regionally and globally;

WHEREAS, most insurance companies previously put under conservatorship or receivership, or recommended for liquidation because of violations of statutory and regulatory requirements, primarily capital impairment and margin of solvency deficiency, and subsequently allowed to be rehabilitated, had failed;

WHEREAS, non-compliant and failed insurance companies cause an alarming number of unpaid insurance claims, causing inestimable damage and prejudice to the victims of unpaid insurance policies; the result is a frustrated insurance policyholding public and unfavorable public perception of the industry as a whole;

WHEREAS, there is a compelling need to assure the safety of the interests of policyholders and the public;

NOW, THEREFORE, pursuant to the authority vested in me by the provisions of Section 188 of the Insurance Code, as amended, the following are hereby promulgated:

- I. Effective July 1, 2006, no new life or non-life insurance company shall be allowed to do business in the Philippines unless it has a capitalization of One Billion Pesos (Php 1,000,000,000.00), paid in cash, of which at least fifty percent (50%) consists of paid-up capital and the remaining portion thereof as contributed surplus, which in no case shall be less than Two Hundred Million (Php 200,000,000.00).
- II. Effective July 1, 2006, no new reinsurance company shall be allowed to do business in the Philippines unless it has a capitalization of Two Billion Pesos (Php 2,000,000,000.00), paid in cash, of which at least fifty percent (50%) consists of paid-up capital and the remaining portion thereof as contributed surplus, which in no case shall be less than Four Hundred Million (Php 400,000,000.00).

- III. Effective July 1, 2006, no life or non-life insurance companies under conservation or receivership or for liquidation may be rehabilitated unless it has a net worth of One Billion Pesos (Php 1,000,000,000.00), computed in accordance with the Insurance Code, and of which at least fifty percent (50%) consists of paid-up capital and the remaining portion thereof as contributed surplus, which in no case shall be less than Two Hundred Million (Php 200,000,000.00).
- IV. Effective July 1, 2006, no reinsurance companies under conservation or receivership or for liquidation may be rehabilitated unless it has a net worth of Two Billion Pesos (Php 2,000,000,000.00), computed in accordance with the Insurance Code, and of which at least fifty percent (50%) consists of paid-up capital and the remaining portion thereof as contributed surplus, which in no case shall be less than Four Hundred Million (Php 400,000,000.00).
- V. The requirements in Paragraphs I, II, III, and IV as aforesaid is without prejudice to other requirements be imposed under any risk-based capital method that may be adopted by the Insurance Commission.

The Insurance Commission may issue such other guidelines as it deems necessary to enforce the provisions of this Circular.

This supersedes inconsistent provisions of Department Order Nos. 27-90; 27-92; 115-93; 116-93; 100-94; 49-96; and 31-01.

This Circular shall take effect on May 15, 2006.

(SGD.) MARGARITO B. TEVES
Secretary
Department of Finance

Recommending approval:

(SGD.) EVANGELINE CRISOSTOMO-ESCOBILLO
Commissioner