Solvency Capital Regime of the Philippines

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The primary goal of any insurance solvency regime is "to secure the interests of policyholders. One of the key elements to this end is the requirement for insurers to hold capital in order to be able to honor all future payouts to policyholders."

From the point of view of the management of the company, the goal of solvency is the continuation of the function and existence of the company. While the universal objective of solvency regimes across the world is similar, the solvency regimes of each country have not been identical. The trend, though, is toward risk-based capital requirements.

The solvency regime for insurance companies in the Philippines is spelled out in the first paragraph of Section 200 in relation to Section 194 of the Amended Insurance Code. Basically, our solvency regime adopts the networth method and the risk-based capital (RBC) method.

The RBC method was adopted, via a circular letter, as an "internationally accepted solvency framework" (Section 200). A minimum paid-up capital is adopted for a "new domestic life or nonlife insurance company" (Section 194).

Previously, a minimum paid-up capital was imposed by Department Order 27-06. But this should be deemed superseded by the Amended Insurance Code.

A "contributed surplus fund of not less than P100 million" may also be required as a prelicensing requirement for new companies—but this is discretionary on the part of the insurance commissioner.

Prior to the amendment of the Insurance Code by Republic Act 10607, the solvency regime (or requirement) was the Margin of Solvency (or solvency margin) as defined under Section 194 of Presidential Decree (PD 612 [as amended by PD 1455]). It became an international standard in the 1970s.

The Margin of Solvency required that "the value of its admitted assets exclusive of its appraisal and revaluation surplus, and of its paid-up capital, if a domestic company, or the value of its admitted assets in the Philippines exclusive of its appraisal and revaluation surplus, and of its security deposits, if a foreign company, exceeds the amount of its liabilities, unearned premium and reinsurance reserves in the Philippines by at least two per mille [i.e., P2 for every P1,000] of the total amount of its insurance in force as of the preceding calendar year on all policies, except term insurance, in the case of a life company, of by at least 10 per centum [i.e., P10 for every P100] of the total amount of its net premium written during the preceding calendar year, in the case of a nonlife company. In either case, however, such margin shall in no event be less than P500,000" (IMC 4-75).

In other words, the solvency margin requires that the value of assets should exceed the value of liabilities by a certain margin. It is the margin by which the assets owned by the insurer must exceed its liabilities. The solvency margin is a minimum excess on an insurer's assets over its liabilities set by regulators.

Under this former rule, the margin for nonlife insurance is a percentage of premium income. For life insurance, it was a specific amount (P2 per thousand) imposed on the total insurance amount of all policies except term insurance.

The determination of this margin necessitates the examination of mainly four aspects: 1) the evaluation of liabilities; 2) the evaluation of assets; 3) the level of the premiums of long-term policies; and 4) reinsurance.

The required solvency margin varies among jurisdictions.

For example, in Brunei Darussalam the solvency margin must be equal to 20 percent of the net premium income for all classes written in the previous financial year.

In Hong Kong the solvency margin for the general (nonlife) insurer is the greater of "one-fifth of the relevant premium income up to HK$200 million, plus one-tenth of the amount by which the relevant premium income exceeds HK$200 million, or one-fifth of the relevant claims outstanding up to HK$200 million, plus one-tenth of the amount by which the relevant claims outstanding exceeds HK$200 million, subject to a minimum of HK$10 million or HK$20 million in the case of insurers carrying on statutory classes of insurance business."

In India the solvency margin is the maximum of the following amounts: "500 million India rupee for direct nonlife insurers, or a sum equivalent to 20 percent of net premium income, or a sum equivalent to 30 percent of net incurred claims."

In Vietnam the solvency margin of a nonlife insurer is the greater of "25 percent of the total premiums actually retained at the time of determination of the solvency margin, or 12.5 percent of the total primary insurance premiums plus reinsurance premiums at the time of determination of the solvency margin."

The shift away from the Margin of Solvency method was propelled by the desire to conform with internationally accepted standards. Nevertheless, the solvency margin is still the solvency capital requirement in a number of Asian countries, such as Brunei Darussalam, Hong Kong, India, Macau, Malaysia (Labuan), Pakistan and Vietnam.

The RBC method is adopted in Australia, New Zealand, China, Indonesia, Japan, South Korea, Papua New Guinea, Singapore, Sri Lanka, Taiwan and Thailand.

The networth method is peculiar to the Philippines.

There are other solvency regimes across the globe, such as the Solvency II regime in the European Union (EU), which entered into force on January 1, 2016. It is based on a three-pillar supervisory structure.

Solvency II comprises quantitative requirements regarding risk-based capital (Pillar 1); supplemented by qualitative requirements concerning governance and the supervisory review process (Pillar 2); and requirements concerning public disclosure and supervisory reporting (Pillar 3).

In Switzerland the Swiss Solvency Test (SST) was adopted in 2006. The EU has classified SST as fully equivalent to Solvency II. There are other risk-based solvency capital regimes which follows a three-pillar approach and with different variations under different nomenclatures.

Examples are: the China Risk Oriented Solvency System, which came into force on January 1, 2016, the Life and General Insurance Capital Standards of Australia, the Solvency Assessment and Management Framework of South Africa, and Singapore, of course, has its own RBC 2.

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