Insurance investments in real estate

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Written by Atty. Dennis B. Funa

Insurance companies, both life and nonlife, may invest in real estate intended to be its main place of business or to serve as its branch offices. The limitation is that its value should not exceed 20 percent of its net worth (Section 206 [b] [1]). For nonlife companies, a specific provision (Section 210 [a]) provides that the lot and building where the company conducts its business shall not exceed 20 percent of the net worth of such company.

Life companies may, likewise, invest in housing projects, provided the aggregate book value in such projects must not exceed 25 percent of the total admitted assets (Section 208 [a]). Life companies may also invest in real estate, which produces income. Thus, in real properties improved or developed for investment purposes (Section 208 [b]). The limitation in this kind of investment is that the cost of each real property, including the estimated cost of development, together with the book value of all its other real properties, shall not exceed 25 percent of its admitted assets (Section 208 [b]). Investments in housing projects and real properties producing income do not apply to nonlife companies. Note that when so allowed for life companies, there are no restrictions on investments in real properties located outside the Philippines. The Insurance Code is silent on investments in real properties outside the Philippines. Generally, investments by insurance companies in real-estate have been small. The little interest in real-estate investment seems to be also present in other jurisdictions.

In the United States the acquisition of real estate is the most restricted area of investment. Originally, investment in real estate was limited to ownership of home and branch offices. The New York Insurance Code was amended in 1922 to allow life-insurance companies to invest in housing projects. The California Code was amended in 1940 to allow insurance companies to invest in housing projects within the state. In 1942 the state of Virginia allowed the acquisition of real estate, which could be leased for the production of income. Today real estate in the US continues to be “stringently regulated.” As cited by Henebry and Diamond: “There are three states that limit real-estate holdings to no more than 5 percent of admitted assets and only three states that place no limits on holdings. Some states, in regulating real-estate investment, split limits along types of holdings. For example, New York limits real-estate holdings for the purpose of investment income to 12.5 percent and holdings for the company's own office space to 10 percent of admitted assets."

In China insurance companies were only allowed to invest in real estate for "self-use" until October 2009 when the China Insurance Regulatory Commission (CIRC) allowed domestic real-estate investment. Subsequent deregulation allowed insurance companies to invest up to 30 percent of their total assets in real estate, and up to 15 percent of their total assets in overseas investment. It is expected that by 2019, overseas real-estate investment of Chinese insurance companies will reach $73 billion. The Waldorf Astoria hotel in New York was acquired by Anbang Insurance for $1.95 billion. The Tower Place in London was purchased by Ping An for $520 million.

In July 2013 the Lloyd's of London building was also acquired by Ping An for $416 million. The10 Upper Bank Street in London was acquired by China Life Insurance for $1.33 billion in June 2014. London has become a favorite city for Chinese investors with $2.8 billion in Chinese capital spent in 2013 alone. Notwithstanding these high-profile acquisitions, overseas investments still remain low. In August 2014 the total assets of China's insurance industry stood at 9.5 trillion renminbi ($1.55 trillion). In theory, therefore, up to $220 billion can be invested overseas in property or other assets.

In Europe M&G, the investment arm of insurer Prudential Plc., has invested £18 billion worth of real estate globally.

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Dennis B. Funa is currently the deputy insurance commissioner for Legal Services of the Insurance Commission. E-mail: dennisfuna@yahoo.com.