Insurance investment in equities

Category: Opinion 13 September 2016
Written by Atty. Dennis B. Funa

There are generally five categories of investments available for insurance companies: bonds, mortgages, real estate, stocks and “other” assets. Stocks include both common and preferred shares. The acquisition of stocks is usually subject to statutory limits.

Nonmortgage bonds, on the other hand, may be limited as to quality and not in terms of a quantity, such as a percentage of admitted assets or capital. Investment regulations in different jurisdictions have varying limitations. In any case, according to an authority, “a life insurer’s primary responsibility is to safety and soundness, rather than investment return.”

Under the Amended Insurance Code, insurance companies may invest in equities or shares of other companies. It may invest in common (Section 206 [b] [6]) or preferred shares (Section 206 [b] [5]) of domestic companies. For investment in common shares, life companies may not exceed 10 percent of the total admitted assets of the insurer for any single institution (Section 206 [b] [6]). It must also be an investment in the shares of a financially solvent corporation (Section 206 [b] [5 & 6]) and by recognized practice, the company must be rated.

For preferred shares investments by life companies, it may not exceed 10 percent of the total admitted assets of the insurer for any single one institution (Section 206 [b] [5]). And, if the stocks are guaranteed, it may not exceed 50 percent of the preferred or common stocks of the guaranteeing company (Section 206 [b] [5]).

Insurance companies may invest in the equities of other financial institutions (Section 207 [1]). There is no need of prior approval by the commission for listed equities of other financial institutions (Section 207 [2]).

For nonlife-insurance companies, there is a uniform limitation. No investment in stocks shall exceed 20 percent of the net worth of the insurance company as shown in its latest financial statement or 20 percent of the paid-up capital of the issuing company, whichever is lesser, unless approved by the insurance commissioner (Section 211).

Investments may also be made in mutual funds and UITFs under Section 202 (j) and CL 2014-50, provided total placements in each fund do not exceed 10 percent of the total admitted assets for a life-insurance company and 20 percent of net worth for a nonlife-insurance or professional reinsurance company. Investments in Exchange Traded Funds (ETFs) are allowed under CL 2014-30.

Although not expressly stated in the Amended Insurance Code, insurers may also invest in foreign equities and they are allowed as surplus investments (Section 2.1.7 of CL 2014-19).

In 2014 the total investments in stocks by life-insurance companies totaled P47.36 billion. This represents a 20.20-percent growth from the previous year's figure. In nonlife companies, investment in stocks totaled P11.61 billion as of 2014. The total invested funds of the nonlife companies totaled P56.73 billion in 2014. Accordingly, total insurance industry investment in equities totaled P58.97 billion in 2014.

The valuation of equity investments is governed by CL 2015-08, dated March 6, 2015. Investment in equities through the Philippine Depository and Trust Corp. is governed by CL 7-97, dated May 8, 1997.

It should be noted that investment "tracks" vary between premiums for whole life policies and those for variable policies. Whole life premiums are invested through a general account where the investment risk is borne by the insurer. With respect to variable policies, the policyholder is allowed a certain degree over investment choices and, therefore, retains some of the investment risks.

There was a time when investments in common stocks and real estate were forbidden in most states of the US as a result of the Armstrong Committee Report, which investigated the insurance business in New York State. It came out with its report in 1906 disclosing certain derogatory effects of such investments. In fact, only seven states permitted it. It found that many insurance companies had invested in several corporations where its directors had also invested, raising issues over money trust. It was only in 1951 when New York allowed the investment in common stocks. In several states, it came with strict conditions. In Wisconsin, for example, it allowed no more than 1 percent of its assets to be invested in the corporate stocks of a single corporation.

****

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