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COMMISSIONER FUNA SETS BETTER CAPITAL CHARGES FOR INFRA INVESTMENTS OF INSURANCE COMPANIES

Insurance Commissioner Dennis B. Funa recently signed Circular Letter No. 2019-19 which provides for better capital charges for infrastructure investments under the Philippine Development Plan (PDP) of insurance companies to make them more attractive and cheaper for insurers.

According to Commissioner Funa, "The risk calibration for debt instruments has been reduced to 6% while the risk charges for investment in equity shares were likewise reduced to 9%."

Under the previous regulation, the risk charges for debt and equity instruments related to infrastructure investments were the same as ordinary debts and equities.

Commissioner Funa said, "This is a substantial improvement compared to the previous calibration. Before the issuance of this new circular letter, capital charges relating to investments in infrastructure projects were subject to risk calibration ranging between 1.25%-24% for debt instruments and 40%-55% for equity investments."

"In other words, under the previous regulation, the risk charges for debts and equities used in calculating insurers' capital requirements under the RBC2 were without distinction as to whether or not the same are infrastructure related," he added.

Under this new regulation, debt and equity instruments related to infrastructure projects under the PDP are now, in effect, a new classification of assets which is distinct and separate from ordinary debt and equity investments.

According to Commissioner Funa, the lowering of risk charges for insurers' debt and equity investments in infrastructure projects was brought about by the clamor of the insurance industry.

"Recognizing the ability of investments in infrastructure to drive economic growth in line with the priority of the government to narrow infrastructure investment gaps vis-à-vis the capacity of insurers to invest in long-term assets, I convened a committee to review the appropriate risk charges for this investment class with the goal of crafting a prudentially sound mechanism to facilitate investment in infrastructure and at the same time safeguarding the financial stability of insurers," said Commissioner Funa.

He added, "The reduction in risk charges of investment in infrastructure projects of the government demonstrates the recognition by this Commission that these investments exhibit better recovery rates than corporate debt and provide relatively stable long-term cash flow. As a result of the imposition of better capital charges, insurers will find it more attractive, easier, and cheaper to invest in infrastructure projects."

"Considering that we have favorably responded to the clamor of the insurance industry for the lowering of the risk charges, we hope that they will take advantage of this change and utilize their capital and be key enablers for investments in infrastructure that the country needs," said Commissioner Funa.

Investments in infrastructure projects under the PDP shall be allowed and admitted as assets of insurance companies provided that the same are approved by the Insurance Commission.

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