



Circular Letter No.:	2020 - 99
Date:	12 October 2020
Supersedes:	None

CIRCULAR LETTER

TO : ALL INSURANCE COMMISSION REGULATED ENTITIES

**SUBJECT : ADOPTION OF THE INSURANCE COMMISSION FINANCIAL
CRISIS MANAGEMENT AND RESOLUTION HANDBOOK**

WHEREAS, the Financial Stability Coordination Council (FSCC), an inter-agency council composed of the Bangko Sentral ng Pilipinas, Securities and Exchange Commission, Insurance Commission, and Philippine Deposit Insurance Corporation, was created with the objective of identifying, managing, and mitigating the build-up of systemic risks within the Philippine financial system;

WHEREAS, the FSCC, recognizing the adverse effects of a financial crisis to the interlinked financial institutions in the Philippines, developed a Framework for Crisis Management and Resolution (Framework) for Financial Institutions;

WHEREAS, the Framework sets forth the policy responses that the members of the FSCC intend to pursue not only in crisis scenarios but also during normal times as part of its preparatory and preventive measures to avert and manage crisis scenarios;

WHEREAS, the Framework states that FSCC member agencies should have their own Financial Crisis Management and Resolution (FCMR) Handbook;

WHEREAS, Insurance Commission, through its Financial Crisis Management and Resolution Working and Core Group, in compliance with the mandate of the Framework has developed its own FCMR Handbook, attached herewith as *Annex "A"*;

WHEREAS, the Insurance Commission, realizing the vital role of the Framework and the FCMR Handbook in this time of crisis brought about by the COVID-19 pandemic, deems it prudent to approve and adopt the Insurance Commission FCMR Handbook;

NOW, THEREFORE, in view of the foregoing and pursuant to the powers granted to the Insurance Commissioner under Republic Act No. 10607 or the Insurance Code of the Philippines, as amended; Republic Act No. 9829 or the

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Pre-Need Code of the Philippines; and Executive Order No. 192, series of 2015, the ***Insurance Commission (IC) Financial Crisis Management and Resolution (FCMR) Handbook***, attached hereto, is hereby approved and adopted.

This Circular Letter shall take effect immediately.

For guidance and implementation of the concerned.

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DENNIS B. FUNA
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ANNEX "A"

Insurance Commission Financial Crisis Management and Resolution Handbook

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Insurance Commission Financial Crisis Management and Resolution Handbook

I. Introduction

The financial crisis has made regulators realize that preparation and coordinated efforts are key elements in dealing with distressed financial institutions. Large interconnected financial institutions cannot be allowed to fail without having preventive measures to mitigate the impact of such failure and/or immediate rehabilitation plans to prevent systemic repercussions and costs to public. These realizations led to efforts within the international community to develop frameworks aimed to avert and manage financial crisis.


A variety of measures to address systemic risk have already been developed both at the national and international levels. In particular, Financial Stability Board (FSB) and the International Association of Insurance Supervisors (IAIS) developed the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) and the Global Systemically Important Insurers: Initial Assessment Methodology and Policy Measures, respectively, to provide guidance for both insurers and regulators on how to assess the systemic risks of financial institutions and insurers and resolve financial crisis.

Likewise in the Philippines, taking its cue from the global reforms as well as recognizing the need to come up with a cohesive crisis management and resolution framework in view of the increasing inter-linkages of financial institutions and growth of the Philippine financial system in size and complexity, the Financial Stability Coordination Council (FSCC)¹ has taken upon itself to develop the Framework for Crisis Management and Resolution in the Financial Sector (Framework). The Framework to the extent possible, substantially adopts the principles set forth in the aforementioned Key Attributes. The Framework will apply to all systemically important financial institutions, financial market infrastructures and conglomerates.

This Insurance Commission Financial Crisis Management and Resolution Handbook (Handbook) was developed on the basis of the Framework formulated by the FSCC and has adopted its three basic tenets of crisis management, namely, monitoring and surveillance, mitigation and resolution. On the basis of these pillars, this Handbook sets forth the policy responses that the Insurance Commission (IC) intends to pursue not only in crisis scenarios but also during normal times as part of its preparatory and preventive measures to avert and manage crisis scenarios. This Handbook is intended not only to entities that are systemically important, but to all entities regulated by IC.

¹ The FSCC is a voluntary interagency council composed of the Bangko Sentral ng Pilipinas, Department of Finance, Securities and Exchange Commission, Philippine Deposit Insurance Corporation and Insurance Commission.

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A. Scope

This Handbook will apply to all Insurance Commission Regulated Entities (ICREs) incorporated and/or operating in the Philippines.

B. Objectives

Conscious of the fact that a financial crisis does not happen overnight, the paramount purpose of this Handbook is to provide guidance for IC on how to prepare for a crisis and should a crisis be imminent, how to manage and resolve such crisis situation.

To achieve the foregoing objectives, the following goals must likewise be taken into consideration:

- Prioritize prevention and preparation;
- Minimize disruption in the financial system;
- Allow fast and decisive action;
- Provide appropriate resolution tools;
- Protect the public.

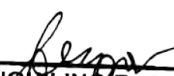
C. Definition of Terms

1. *Financial stability* – pertains to a situation when the governance framework of the market and its financial infrastructure enable and ensure the smooth functioning of the financial system conducive to sustainable and equitable economic growth.²
2. *Financial crisis* – a disturbance to financial markets. Associated typically with falling asset prices and insolvency among debtors and intermediaries, which spreads through the financial system, disrupting the market's capacity to allocate capital.
3. *Crisis management and resolution* – pertains to a set of actions taken by authorities in order to contain a financial crisis and avoid potentially disruptive effects on the financial system or the real economy.³ Appropriate resolution options/tools are employed to handle failing financial institutions in an orderly manner, with a view to avoiding contagion, maintaining the stability of, and public confidence in, the financial system as well as protecting depositors and public funds.
4. *Financial Stability Coordination Council (FSCC)* – pertains to a voluntary interagency council created in October 2011 composed of the Securities and Exchange Commission, the Insurance Commission, the Philippine Deposit Insurance Corporation, the Department of Finance, the Bureau of Treasury, and the BSP, with the BSP Governor as its Chairman. The FSCC's key objective is to identify, manage and mitigate the build-up of systemic risks consistent with the overall prudential objective of financial stability.

² As defined by the BSP FSC

³ Report on Financial Crisis Management/Brouwer Report (2001)

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5. Insurance Commission Regulated Entities (ICREs) – refers to the insurance companies, pre-need companies, professional reinsurers, mutual benefit associations and health maintenance organizations under the supervision of the Insurance Commission pursuant to Republic Act No. 10607 (amended Insurance Code), Republic Act No. 9829 (Pre-need Code) and Executive Order No. 192 s. 2015.

D. Vulnerabilities of ICREs

Financial crisis may arise from different causes and may be triggered by the following:

1. Economic crisis

Indicators may include stress on foreign exchange market, reserves adequacy, external debt obligation, credit conditions, asset price inflation, money growth, fiscal conditions and financial exposure.

2. Financial Market Disruptions

Common indicators for financial market disruptions may include volatilities on bond yield, foreign exchange, interbank loan spreads and stock market prices.

3. Disruptions in the Financial Market Infrastructures

Disruptions may include volatilities in prices or activities in financial markets, insolvency of a participant, defaults of one or more financial institutions or operational disruptions.

4. Financially Distressed Institutions (FDIs)

Indicators that may identify an FDI are declining asset quality and rapid or unusual growth, profitability trends and capital adequacy.

5. Natural Disasters/Political Risks/Pandemics

Natural Disasters

History shows that the Philippines has always been riddled with natural disasters such as typhoons, El Niño phenomenon, earthquakes and volcanic eruptions and their corollaries such as floods, severe drought, flash floods, storm surges, landslides and lava/mud flows. The Philippines' vulnerability to natural disasters may be attributed to its location along the ring of fire, or typhoon belt – a large Pacific Ocean region where many of earth's volcanic eruptions and earthquakes occur.

Political Risks

Over the last few decades, the Philippines has undergone political upheavals and turmoil that curtailed economic growth. The Philippines has experienced a Martial Law regime, change in government structure, cabinet revamps, several People Power Revolutions, numerous coup d' etas, military and rebel confrontations, presidential impeachments as well as massacres. All of these events have, one way or another posed risks to the financial system. Akin to

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natural disasters, political or man-made cataclysms can cause considerable loss of lives, homes, livelihood and services. They also result in injuries, health problems, property damage, and social and economic disruptions.

Pandemics

A pandemic is by far the biggest risk to the global economy and wipe out as much as 10 percent of Gross Domestic Product (GDP) of the global economy.⁴ In a report published by the WB in the wake of the avian flu outbreak (2003), the cost of the pandemic was estimated at \$3.78 trillion.

Hundreds of other infectious diseases continue to emerge and have the potential to develop into pandemics that will have serious economic implications.

II. Key Persons Responsible for Crisis Management

The following groups shall be responsible for crisis management:

1. Crisis Management Team (CMT)
2. Disaster Response Team (DRT)
3. Communications Core Team (CCT)
4. The Insurance Commissioner, Deputy Insurance Commissioners, and all concerned Division Managers of IC

Members of each group are identified in Annex A.

III. Preventive and Preparatory Measures

A. Surveillance and Monitoring Tools

A financial crisis is not an unforeseen event. It is important therefore for the IC to develop tools to detect early and address immediately emerging threats to financial stability. The IC put in place Surveillance and Monitoring Tools consisting of Early Warning Indicators (EWIs), On-Site and Off-Site Examinations and Media Surveillance which will provide information to IC for identifying those ICREs that may potentially become financially distressed.

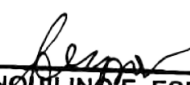
1. Early Warning Indicators

Insurance Companies (Life, Non-life, Composite and Professional Reinsurers)

Early Warning Indicators are based on the quarterly reports submitted to IC. Since capital strength is the most indicative factor of the financial health, the primary indicator should provide the appropriate warning of the impending failure. This is why the Minimum Net Worth Requirement and RBC Ratio were chosen by the IC as its primary tools in determining the capital adequacy of the company and the level of regulatory intervention required. The

⁴ Statement of Mr. Jim Yong Kim, President of the World Bank (WB),

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Minimum Net Worth Requirement, RBC thresholds and the corresponding level of regulatory interventions shall be as follows:

Minimum Net Worth Requirements:

Date of Compliance	Minimum Net Worth Requirement
30 June 2013	P 250,000,000.00
31 December 2016	P 550,000,000.00
31 December 2019	P 900,000,000.00
31 December 2022	P 1,300,000,000.00

RBC Ratio Thresholds and Regulatory Interventions:

RBC Ratio	Event	Description
$100\% \leq Y < 125\%$	Trend Test	Company required to submit linear extrapolation of the RBC ratio for the next period. If the RBC ratio based on the trend test falls below 100%, move to Company Action Event.
$75\% \leq Y < 100\%$	Company Action	Company required to submit RBC plan and financial projections and implement the plan accordingly.
$50\% \leq Y < 75\%$	Regulatory Action	IC authorized to examine company and issue Corrective Orders.
$Y < 50\%$	Authorized and Mandatory Control	IC authorized and required to take control of the company.


Compliance to the above-mentioned requirements shall be determined through close monitoring and analysis of the following quarterly reports:

- Financial Reporting Framework to determine the financial condition and net worth compliance;
- Valuation Standards for Insurance Policy Reserves to determine compliance with requirements on policy reserves; and
- Amended Risk-Based Capital (RBC2) Framework to measure the minimum amount of capital appropriate to support the overall business operation in consideration of its size and risk profile.

Mutual Benefit Associations

Mutual Benefits Associations (MBAs) Annual Statements are audited to verify its compliance with Guaranty Fund Requirement provided under Section 405 of the Amended Insurance Code and Insurance Memorandum Circular (IMC) Nos. 2-2006 dated 24 April 2006 (Regular MBAs) and 9-2006 dated 25 October 2006 (for Microinsurance MBAs) and RBC Framework provided under IMC No. 11-2006 dated 08 December 2006.

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RBC thresholds and the corresponding level of regulatory interventions shall be as follows:

RBC Ratio	Event	Description
$100\% \leq Y < 125\%$	Trend Test	Linear extrapolation if next year's ratio < 100%. If so, move to MBA Action Event
$75\% \leq Y < 100\%$	MBA Action	Submit RBC plan and financial projections. MBA implements the plan.
$50\% \leq Y < 75\%$	Regulatory Action	IC authorized to examine the MBA and issue Corrective Orders.
$35\% \leq Y < 50\%$	Authorized Control	IC authorized to take control of the MBA.
$Y < 35\%$	Mandatory Control	IC required to take control of the MBA.

Pre-need Companies

Early Warning Indicators are based on the quarterly reports submitted to IC. Since capital and the trust fund adequacy are the most indicative factor of the financial health of a pre-need company, the primary indicator should provide the appropriate warning of the impending failure. This is why the Minimum unimpaired capital under Section 9 of R.A. 9829 or the Pre-Need Code of the Philippines (PN Code), and the Trust Fund adequacy prescribed Section 30 of the same Code were chosen by the IC as its primary tools in determining the capital adequacy of the company and the level of regulatory intervention required.

Minimum unimpaired capital and Trust Fund requirement and the corresponding level of regulatory interventions shall be as follows:

Minimum Unimpaired Capital

Existing Pre-need company prior the effectivity of PN Code	
Companies selling at least three(3) types of plan	P 100, 000,000.00
Companies selling two (2) types of plan	P 75, 000,000.00
Companies selling a single type of plan	P 50, 000,000.00
Existing pre-need companies with traditional education plans	P 100, 000,000.00
Pre-need company incorporated after the effectivity of PN Code	
Regardless of the number of types of plans	P 100, 000,000.00
Servicing Companies per CL 2019-50	
Companies with servicing licenses and/or those that are not offering any type of plan for sale	P 50, 000,000.00

Trust Fund Requirement

Investment in Trust Fund	xxx
Less: Pre-Need Reserves + Planholders' Benefits Payable	xxx
Excess/(Deficiency) in Trust Fund	xxx

*The Trust Fund must at all times be sufficient to cover the required Pre-need Reserve.

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Compliance to the above-mentioned requirements shall be determined through close monitoring and analysis of the following quarterly reports:

- a. Interim Financial Statements submitted by the company; and
- b. Trustee Bank's Financial Statements

The key financial ratios applicable for the pre-need consist of the following:

1. Change in Capital and Net worth
2. Adequacy/Deficiency of Trust Fund

Health Maintenance Organizations (HMOs)

Compliance of HMOs shall be done through the analysis of the Interim Financial Statements. The following requirements pursuant to Circular Letter Nos. 2016-41 "Minimum Capitalization and Financial Capacity Requirements for HMOs" and 2019-43 "Guidelines on the Analysis Of Quarterly Interim Financial Statements of Health Maintenance Organizations (HMOs)", must be satisfied:

1. Risk Based Capitalization

The HMO's maximum risk on membership fees shall be determined by the following:

Paid-Up Capital	Maximum Gross Membership Fees
Up to 50M	5 times of PUC
More than 50M up to 75M	10 times of PUC
More than 75M up to 200M	15 times of PUC
More than 200M up to 300M	25 times of PUC
More than 300M up to 400M	30 times of PUC
More than 400M up to 500M	50 times of PUC
More than 500M	No Limit

2. Net Worth Requirement

All HMOs must have a Net Worth which should be not less than its Paid-Up Capital.

3. Liquidity Requirement

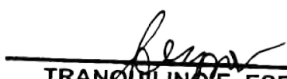
HMOs shall at all times maintain an acid test ratio of at least 1.0.

$$\text{Acid Test Ratio (ATR)} = \text{Current Assets} / \text{Current Liabilities}$$

4. Further, Circular Letter No. 2019-43 provides for the following, but not limited to, significant concerns for the quarterly monitoring of HMOs:

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- a. Non-compliance with the Financial Capacity Requirements as prescribed by Section 1 of CL 2016-41 and/or projected non-compliance on subsequent periods;
- b. Any material findings that may affect the company's financial condition on a going-concern basis, and/or the effect of which could lead to noncompliance with IC requirements;
- c. Significant movements in the account balances;
- d. Delayed submissions;
- e. Non-compliance with the recommendations and requirements of the analysis of the previous quarters and/or verification/examination of
- f. Audited Financial Statements which may affect the analysis of the current quarter; and
- g. Other violation of IC's applicable rules and regulations.

A list of Circulars issued by IC concerning the above-mentioned requirements can be found in Annex B.

2. On-Site and Off-site Examination

In addition to the EWIs, the financial examiners of the IC shall conduct an annual comprehensive examination based on the results of the analytical review of the EWI to determine their financial condition and identify the appropriate regulatory action required.

In addition to the primary and secondary tools, the examiners shall also take into account the following quantitative and qualitative information in the conduct of examination to further evaluate the financial condition of the ICRE.

Quantitative Information

1. Deteriorating capital strength
2. Constant reserve revisions
3. Concentrated investments, particularly in related entities
4. Claim experience
5. Declining profitability for investment income
6. Number of consumer or intermediary complaints
7. Rapid growth
8. High expenses
9. Specific expense is unusually high relative to the industry average
10. Significant divergence from budgets and business plans
11. Inappropriate bonus and remuneration structure
12. Significant Non-admitted/unaccounted assets relative to its total assets

Qualitative Information

1. Adverse report from auditors/actuaries
2. Failure to implement regulatory or supervisory requirements
3. Non-cooperation with the supervisor or delays
4. Evidence of poor management
5. Evidence of non-viable business plan

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6. Engagement in non-traditional or non-insurance or unauthorized business activities
7. Change in financial or investment strategies
8. Frequent changes to the administrative or management body
9. A crude underwriting strategy (pricing and risk selection)
10. Cessation of business/sources of business being written

3. Media surveillance

As a thorough monitoring system is a pre-requisite for obtaining early warning of potential risks to financial stability of an ICRE, the IC shall monitor media reports covering business-specific issues and industry, market, political and legislative developments which may have implications on the ICREs.

B. Business Continuity and Disaster Recovery Plans

The IC shall require the ICREs to develop their Business Continuity Plans (BCPs) and Disaster Recovery Plans (DRPs) which should be subjected to regular review and run-throughs. The BCP is a plan of action which sets out the procedures and establishes the processes and systems necessary to restore the orderly and expeditious operation of the institution as well as ensure the continuous delivery of critical services and products during and after a disaster. The DRP is a part of the over-all BCP which provides detailed strategies on the measures that an institution must follow during, and after a disaster.

The BCPs/DRPs shall contain at least the following:

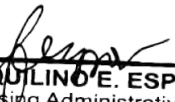
1. Emergency and Evacuation plans
2. Communication protocols and Event responding procedures
3. Back up sites (for both IT and work area) and plans to ensure that there will be minimal disruptions in the IT systems and business operations.
4. Disaster Recovery site
5. Mechanisms to address the vulnerabilities enumerated in this Handbook, i.e. Natural disasters, political risks and pandemics
6. Establishment of the Crisis Management Team
7. Recovery Procedures

The IC shall likewise have in place its own BCP and DRPs including mechanisms to coordinate with other relevant government agencies during natural calamities.

C. Early Intervention

If the ICRE is not able to comply at a minimum with the requirements under On-Site and Off-Site Examinations of the Surveillance and Monitoring Tools, the IC shall inform the ICRE of the findings on its financial condition and the requirements needed to address its financial issues. If within a set reasonable time and extensions, the ICRE is not able to comply with the requirements, the examiners shall report the matters with the Commissioner. The Commissioner shall then decide whether the IC shall exercise its power to mitigate or control the aggravating condition and secure the recovery of the ICRE.

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The IC early intervention mechanisms are the cessation of taking new risks and suspension and revocation of Authority. If the result of the examination disclosed that the ICRE is insolvent or non-compliant with the provisions of the Insurance Code as amended, the Pre-Need Code, Executive Order No. 192 s. 2015, applicable circulars, regulations and other issuances, the Commissioner is authorized to order the company to cease taking new risks or suspend or revoke all Certificates of Authority granted to the ICRE, its agents and officers and no new business shall thereafter be done during the suspension or revocation.

IV. Resolution Powers and Tools

The following are the resolution power that may be exercised and tools that may be used by the IC:

A. Appointment of Conservator

If the Insurance Commissioner (Commissioner), after examination, finds that a DSII is in a state of continuing inability or unwillingness to maintain a condition of solvency or liquidity deemed adequate to protect the interest of policyholders and creditors, he shall appoint a conservator, who shall be authorized to:

- a. Take charge of the assets, liabilities, and the management of such DSII;
- b. Collect all moneys and debts due to said DSII and exercise all powers necessary to preserve the assets of said DSII;
- c. Reorganize the management of the DSII, and restore its viability;
- d. Overrule or revoke the actions of the previous management and board of directors of the said DSII, any provision of law, or of the articles of incorporation or bylaws of the DSII, to the contrary notwithstanding; and,
- e. Exercise such other powers as the Commissioner shall deem necessary.

B. Appointment of Receiver

If the conservator in his/her report to the Commissioner, determine that the DSII can no longer be rehabilitated and continuance of the business would be hazardous to policyholders and creditors, the Commissioner shall order the DSII to cease and desist from transacting business and shall appoint a receiver.

The Receiver has the following powers:

- i. take charge of the assets and liabilities of the DSII;
- ii. collect and gather all the assets and administer the same for the benefit of the policyholder and creditors and;
- iii. bringing suits and foreclosing mortgages in the name of the DSII

C. Appointment of Liquidator

As contained in the Key Attributes, liquidation, or resolution of a DSII should be initiated by the IC upon the recommendation of the appointed conservator/receiver, when the DSII is no longer viable or likely to be no longer viable and has shown no reasonable prospect of becoming so. The resolution regime should provide for timely and early entry into resolution,

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ideally, before a firm is balance-sheet insolvent and before all equity has been fully wiped out. There should be clear standards or suitable indicators of non-viability to help guide decisions on whether firms meet the conditions for entry into liquidation/resolution, such as:

- a. The insurer is in breach of minimum capital, assets backing technical provisions, or other prudential requirements and there are not reasonable prospects of restoring compliance with these requirements;
- b. There is a strong likelihood that policyholders or creditors will not receive payments as they fall due; and,
- c. Recovery measures have failed, or there is a strong likelihood that proposed recovery measures will not be sufficient, to return the insurer to viability or cannot be implemented in a timely manner.

In case there is a determination that the DSII should be placed under liquidation/resolution, the Commissioner shall designate a competent and qualified person as liquidator who shall take over the functions of the receiver previously designated and, with all convenient speed:

- a. Reinsure all its outstanding policies;
- b. Convert the assets of the DSII to cash or sell, assign or otherwise dispose of the same to the policyholders, creditors and other parties for the purpose of settling the liabilities or paying the debts of such DSII;
- c. In the name of the DSII, institute such actions as may be necessary in the appropriate court to collect and recover accounts and assets of the DSII; and,
- d. Do such other acts as may be necessary to complete the liquidation as ordered by the Commissioner.

D. Approval of Plan of Consolidation or Merger

The distressed DSII with the approval of the Commissioner may opt to consolidate or merge with other insurance companies.

E. Approval of Purchase and Assumption

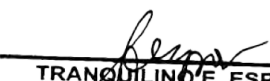
Other Insurance Companies or Investors with the approval of the Commissioner may purchase and take control of the operations of a distressed DSII.

V. Recovery and Resolution Plans

The Recovery and Resolution Planning Methods should adhere to the objectives of the Key Attributes which is to provide a systematic resolution of DSIs without severe disruption and at the same time protect economic functions through mechanisms which make it possible for the shareholders and creditors alike to absorb losses in a manner that respects the hierarchy of claims in liquidation, and at the same time be able to give policyholders their due. The following should be the considerations in coming up with recovery and resolution plans:

1. Protect policyholders and ensure rapid return of segregated client assets;

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2. Allocate losses to the owners of the DSII and its creditors in a manner that respects the hierarchy of claims;
3. Not rely on public solvency support and not create an expectation that such support will be available’;
4. Avoid unnecessary destruction of value and minimize the overall costs of resolution;
5. Provide for speed and transparency through legal and procedural clarity and advanced planning for orderly resolution;

The Commissioner is empowered to place a distressed DSII under conservatorship, receivership or liquidation, as the case may be. It is in the said placement under conservatorship, receivership or liquidation that *recovery or resolution planning methods* are imposed.

A. Recovery Plan

1. Placement of a DSII under Conservatorship

To ensure that the DSII’s placed under conservatorship by the IC pro-actively take timely steps to address problems at an early stage, the IC requires them to submit their respective recovery (or rehabilitation plans) plans and regular updates on the implementation thereof, in addition to regular reports required to be submitted by the Conservator.

Since the aim of the conservator is to determine the feasibility of rehabilitating the DSII and resume its normal operations, the Commission requires the submission of a Rehabilitation Plan **within six (6) months** from the assumption of said conservator.

The Rehabilitation/Recovery Plans are expected to be comprehensive and should not source its funds from the public. Moreover, said plan should include a scheme of operations plan that sets out how liabilities to policyholders will be met in full as they fall due.

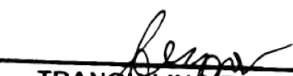
The procedure on rehabilitation of the companies placed under Conservatorship and Receivership is attached herewith as Annex C, for reference.

2. Placement of a DSII under Receivership

In the event that the appointed Conservator, after evaluation of the financial, operational and overall condition of the DSII, or after an attempt to implement the rehabilitation plan, finds that rehabilitation of the DSII is no longer feasible, said conservator may recommend that the DSII be placed under Receivership and a receiver shall be appointed by the Commissioner.

Upon placement under Receivership, the Commissioner shall determine within ninety (90) days whether the DSII may be reorganized or otherwise placed in such condition so that it may be permitted to resume business with safety to its policyholders and creditors and shall prescribe the conditions under which such resumption of business shall take place as well as the time for fulfilment of such conditions.

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If the Commissioner shall determine and confirm within the said period that the DSII is insolvent, such that it is in a state of inability to pay its lawful obligations as they fall due in the usual and ordinary course of business, or cannot resume business with safety to its policyholders and creditors, he shall, if the public interest requires, order its liquidation.

B. Resolution Plan

It is in the liquidation phase that Resolution Planning becomes relevant. During the liquidation phase, the appointed liquidator shall come up with a liquidation or resolution plan, to include, at best:

1. Suitable resolution options to preserve those functions or wind them down in an orderly manner;
2. Potential barriers to effective resolution and actions to mitigate those barriers;
3. Actions to protect insurance policy holders and ensure the rapid return of segregated client assets; and,
4. Clear options or principles for the exit from the resolution/liquidation process.

The Resolution/liquidation plan be submitted by the appointed liquidator within **three (3) months** from his appointment.

In addition to the liquidation plan, a detailed procedure for distribution of the assets of the DSII, or Distribution Plan should be submitted within **one (1) year** from the appointment of the liquidator.

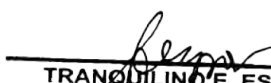
The IC, as the resolution authority, should have the power to restructure, limit or write down liabilities, including insurance, reinsurance and other liabilities, and allocate losses to creditors and policyholders in a way consistent with the statutory creditor hierarchy, including but not limited to:

1. Reducing the value of contracts upon surrender, where insurance contracts have a surrender value to enable losses to be imposed as appropriate on policyholders that seek to surrender their contracts; and,
2. Reducing the value of, or restructuring reinsurance contracts issued by the DSII, for example by imposing limits on a policy to allow losses to be imposed on cedants, as appropriate and where this does not compromise financial stability.

The IC shall ensure that any resolution or liquidation action taken in relation to a DSII shall be in accordance with existing laws, rules and regulations. Under Philippine Laws, the IC is vested with resolution powers including, but not limited to, the following:

1. Removing or suspending senior management and members of the Board of Directors of DSII's;
2. Appointing a conservator to take charge of the assets, liabilities and management of a distressed DSII;
3. Appointing a receiver/liquidator, as the case may be, to take charge of the assets, liabilities and management of a distressed DSII and to administer the same for the benefit of its creditors; and,

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4. Effecting the closure and liquidation of the DSII with payout to its policyholders, in proportion to the remaining assets of said DSII.

The resolution powers of the IC necessarily includes the power to impose a moratorium with a suspension of payments to unsecured creditors and customers and a stay on creditor actions to attach assets or otherwise collect money or property from the DSII.

The receiver or the liquidator, as the case may be, designated shall not be subject to any action, claim or demand by, or liability to, any person in respect of anything done or omitted to be done in good faith in the exercise, or in connection with the exercise, of the powers conferred on such receiver or liquidator.

Liquidation works should be finished and a Liquidator's Completion Report should be submitted by the appointed liquidator within two (2) years from the date of his/her appointment/designation or within six (6) months from the date of the prescription given to the claimants (through publication) to file their claims, whichever comes later. If the said prescriptive period already expired at the time of the designation of the liquidator, a shorter time frame shall be fixed the IC depending on the status of the liquidation process.

After the completion of the liquidation works, the appointed liquidator, upon approval by the IC, shall pay all allowed claims against the DSII in accordance with the distribution plan.

Upon completion of the distribution/payments or expiration of the period to pick up the claim-checks, whichever comes later, the IC shall issue a Final Order of Closure ordering the stockholders on record to formalize the DSII's closure with concerned government agencies. Any excess funds shall be returned to the stockholders on record, in accordance with law, less any fine or fee due the Commission.

The Commissioner shall have the discretion to shorten or extend the periods or timelines prescribed herein depending on the circumstances of each case.

VI. Coordination with Other Regulators and Information Sharing Arrangements

In situations that the IC assessed that it shall need to coordinate with other regulator(s) for information regarding any related party of the ICRE, this matter will be elevated to the Commissioner for approval before the actual coordination. If the Commissioner approves the coordination, the Commissioner will also decide as to whether the current situation will be coordinated through the FSCC or the concerned regulating authority.

Likewise, any reasonable request for information from another regulating authority with whom the IC has entered into information sharing agreements shall be promptly considered and fulfilled to the maximum extent possible without delay subject to existing Memorandum of Agreements. Existing memorandum of agreement(s) or understanding with the other regulator(s) will also be reviewed if there is a need to create one.

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An inventory of Key Memorandum of Agreements entered into by IC with other regulatory authorities can be found in Annex D.

VII. Crisis Communication Policies

Once the IC becomes aware of the emergence of a potentially serious financial disturbance or of facts or events that may give rise to significant problems for its covered institutions, it shall adhere to the following guidelines:

a. Policies for Crisis Communications

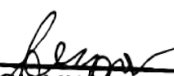
1. All crises will have to be reported immediately to the Commissioner.
2. Only the Commissioner and/or his designated Media Relations Officers are authorized to release information to the media and public. All other officers and staff of the Commission shall help the media by connecting them to the Commissioner and/or his designated Media Relations Officers, but will neither speak to the media nor divulge any information.
3. The Communications Core Team (CCT) constituted by the Commissioner shall direct and coordinate all aspects of the Commission's response to the crisis including managing the messages and the media. However, only the Commissioner and/or his designated Media Relations Officers shall interact with the media and the public.
4. Responses to the media and public shall be proactive, responsive and action oriented. "No Comment" shall never be an acceptable response. If the questions cannot be answered immediately, the Commission shall take note of the questions and tell the inquirer that it will get back to him.
5. Responses of the IC shall be guided by professionalism and transparency and serve to mitigate the crisis.

b. Steps In Crisis Communications Management

The steps outlined hereunder shall be undertaken to manage communications in the event of a crisis

1. For its internal preparations for a crisis before it happens, the Commission shall:
 - a. Disseminate an emergency list with phone numbers, cell phone numbers and e-mail addresses to its officers and staff which shall be updated regularly by the staff designated by the CCT/DRT.
 - b. Keep contact information for the relevant offices both in the public and private sectors and media updated so that they can easily be contacted in times of crisis;

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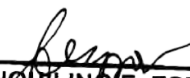
- c. Maintain contact information for police, fire department, hospitals, health department, paramedics, etc. which shall be reviewed and updated regularly.
 - d. Identify and designate the main and back-up spokespersons of the CCT.
 - e. Ensure that CCT spokespersons or Media Relations Officers are familiar with its key messages. At the time of crisis, relevant messages shall be prepared by the CCT;
 - f. Determine a place where the CCT, officers and staff can convene and stage communications if the crisis situation prevents them from getting to or using its offices.
 - g. Identify the additional resources needed to manage the crisis including such equipment as computers and cell phones and the persons who shall be responsible for their operations.
 - h. Review and practice the Crisis Communication Plan on a regular basis.
- 2. The Commission shall ensure the safety of all staff and its office building
 - 3. The CCT formed by the Commissioner shall convene to strategically review and assess the situation, determine facts and manage the communications surrounding the crisis and notify the Commissioner immediately of the crisis situation.

The CCT Lead Person designated by the Commissioner shall ensure that no information shall be released until the CCT convenes, reviews the situation and develops a strategy.

- 4. The CCT shall develop factual and responsive messages which are intended for use by the Commissioner and/or his designated Media Relations Officers. These messages which shall be prepared for media inquiries, industry updates and the public shall reflect, among other things, the status of the crisis, Commission's response and if possible, proactive steps to address the situation. To ensure that these messages truly represent the position or point of view of the Commission and not just that of the CCT, the same shall be approved by the Commissioner prior to their release.
- 5. If necessary and appropriate, the CCT shall coordinate and/or consult with other government agencies and industry organizations involved in or affected by the crisis to ensure consistent messages and conformity of responses.
- 6. The CCT shall prepare talking points and provide a written statement or script for use by the staff it designated to receive incoming calls.
- 7. The CCT shall designate the staff who shall be responsible for managing the media and documenting the crisis details, actions taken, responses and resolutions in order to effectively evaluate crisis communications management.
- 8. The CCT shall ensure that the media, relevant stakeholders and the general public are updated on the crisis situation.

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9. As soon as practical, the CCT shall communicate information concerning the crisis to the staff of the Commission. If the crisis happens at a time when they are not in the office and disseminating the information is either critically time sensitive or concerns the safety of the office building, the CCT shall devise an effective means to communicate the information to them.
10. The CCT shall reconvene to evaluate crisis communication management. It shall, among other things, evaluate responses and actions taken, what did not work and what needs to be improved or revised for the future.

A more detailed Communication Plan shall be developed by the CCT.


VIII. Post Crisis Evaluation

Actual crisis situations and lessons learned should be carefully evaluated to further improve the process. The crisis management effort needs to be evaluated to see what is working and what needs enhancement. IC should seek ways to improve crisis prevention, preparation, and/or response.

The following are the processes that should be done after the crisis:

1. *Collect and evaluate data from crisis records.* The CMT shall collect data and feedback from the key persons/teams involved in the crisis management about the processes conducted.
2. *Obtain stakeholder feedback.* The CMT shall also obtain stakeholder feedback and gather information through structured surveys, interviews, or focus group discussions.
3. *Collect media coverage and internet comments.* The CCT shall submit results of media reports and internet comments or concerns about the crisis to the CMT.
4. *Evaluate information.* The above information shall be discussed with the Commissioner and other key persons on crisis management. Discussions shall determine the effectiveness of management and resolution mechanisms employed, strengths and weaknesses of the crisis management process, and any changes that need to be made in the crisis management handbook. Recommendations for revisions in the handbook should be elevated to the Commissioner for approval.
5. *Elevation of results of post-crisis evaluation.* The CMT shall report the results of the post-crisis evaluation to the Commissioner, which may be reported by the Commissioner to the FSCC as needed.
6. *Follow-up communication to stakeholders.* The CMT shall release updates on the recovery process, corrective actions, and/or investigations of the crisis. Processes and modes of communication should follow the Communication Plan outlined in this handbook and the detailed Communication Plan to be developed by the CCT.

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ANNEX A. KEY POSITIONS FOR CRISIS MANAGEMENT – The appropriate Office Order on the matter shall be issued in due course.

- I. Disaster Response Team**
 - a. Emergency Marshal
 - b. Deputy Emergency Marshal
 - c. Communication Team
 - d. First Response Team
 - e. Evacuation Team
 - f. Search and Rescue Team
 - g. Logistics Team
 - h. Security Team
 - i. Fire Brigade Team
 - j. Savage Team
 - k. First Aid Team
 - l. Transport Team
 - m. Media Team

- II. Communications Core Team**
 - a. Communications Head
 - b. Alternate Head
 - c. Members of Communications Core Team

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ANNEX B. LIST OF RELEVANT CIRCULARS

1. INSURANCE AND PROFESSIONAL REINSURANCE COMPANIES		
i.	Circular Letter No. 2015-02-A dated 13 January 2015	Minimum Capitalization Requirements Under Sections 194, 197, 200 and 289 of the Republic Act 10507 (The Amended Insurance Code)
ii.	Circular Letter No. 2016-68 dated 28 December 2016	Amended Risk-Based Capital (RBC2) Framework
iii.	Circular Letter No. 2016-67 dated 28 December 2016	Valuation Standards for Non-Life Insurance Policy Reserves
iv.	Circular Letter No. 2016-66 dated 28 December 2016	Valuation Standards for Life Insurance Policy Reserves
v.	Circular Letter No. 2017-30 dated 02 May 2017	Regulatory Requirements and Actions for the New Regulatory Framework (Life Insurance Business)
vi.	Circular Letter No. 2017-15 dated 10 March 2017	Regulatory Framework for the New Regulatory Framework (Non-Life Insurance and Professional Reinsurance Companies)
vii.	Circular Letter No. 2018-62 dated 23 November 2018	Regulatory Requirements and Actions for the New Regulatory Framework (All Life, Non-Life and Professional Reinsurance Companies Doing Business in the Philippines)
viii.	Circular Letter No. 2018-18 dated 09 March 2018	Valuation Standards for Non-Life Insurance Policy Reserves (Supersedes CL No. 2016-67)
2. MUTUAL BENEFIT ASSOCIATIONS		
i.	IMC No. 11-2006 dated 08 December 2006	Adoption of Risk-Based Capital Framework for the Philippine Mutual Benefit Associations
ii.	IMC No. 2-2006 dated 24 April 2006	Increase in the Amount of Guaranty Fund of Mutual Benefit Associations
iii.	IMC No. 9-2006 dated 25 October 2006	Microinsurance Regulation and Declaration of Policy Objectives
iv.	Circular Letter No. 2015-46 dated 08 September 2015	Rules in the Application of Section 408, Paragraph 3 of the Amended Insurance Code on Free and Unassigned Surplus
3. HMOs		
i.	Circular Letter No. 2016-41 dated 29 July 2016	Minimum Capitalization and Financial Capacity Requirements for HMOs
ii.	Circular Letter No. 2019-43 dated 02 September 2019	Guidelines on the Analysis Of Quarterly Interim Financial Statements of Health Maintenance Organizations (HMOs)

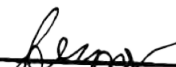
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ANNEX C. INVENTORY OF KEY MEMORANDUM OF AGREEMENTS

	Parties	Subject	Date Executed
1	Bangko Sentral ng Pilipinas, Securities and Exchange Commission, Insurance Commission and Philippine Deposit Insurance Commission	Information Sharing Exchange System	April 19, 2006
2	Bangko Sentral ng Pilipinas and Insurance Commission	Exchange of Information concerning Financial/Banking and Insurance Systems	March 10, 2004

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