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## 20. Management of Insurance and Financial Risks

### Governance Framework

The Association has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risk. It also supports the effective implementation of policies at the overall association and individual business unit levels.

The policies define the Association's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specify reporting requirements.

### Regulatory Framework

Regulators are interested in protecting the rights of the members and maintain close vigil to ensure that the Association is satisfactorily managing affairs for the member's benefit. At the same time, the regulators are also interested in ensuring that the Association maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The operations of the Association are subject to the regulatory requirements of the IC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., margin of solvency to minimize the risk of default and insolvency on the part of the insurance companies to meet the unforeseen liabilities as these arise, minimum guaranty fund, risk-based capital requirements).

### *Guaranty fund*

As a mutual benefit association, the IC also requires the Association to possess a guaranty fund of ₱5.00 million. This minimum amount shall be maintained at all times and it must be increased by an amount equivalent to 5% of the Association's gross premium collections. As of December 31, 2015 and 2014, the Association has a total of ₱9.28 million and ₱8.03 million in 2015 and 2014, respectively, representing guaranty fund which is deposited with the IC. The guaranty fund is presented as "Appropriated fund balance" in the statements of financial position.

### *Risk-based capital requirements (RBC)*

On December 8, 2006, the IC issued IMC NO. 11-2006 adopting the RBC framework for the mutual benefit associations to establish the required amounts of capital to be maintained by entities in relation to their investment and insurance risks. Every mutual benefit association is annually required to maintain a minimum RBC ratio of 100.00% and not fail the trend test. Failure to meet the minimum RBC ratio shall subject the insurance entity to the corresponding regulatory intervention which has been defined at various levels.

The RBC ratio shall be calculated as member's equity divided by the RBC requirement whereas; Members' equity is defined as admitted assets minus all liabilities inclusive of actuarial reserves and other policy obligations.

The following table shows how the RBC ratio was determined by the Association based on its calculation:

	2015	2014
<b>Member's equity</b>	<b>₱20,621,243</b>	<b>₱15,559,149</b>
<b>RBC requirement</b>	<b>1,096,512</b>	<b>1,176,583</b>
<b>RBC Ratio</b>	<b>1881%</b>	<b>1322%</b>

