

# Premiums Receivable as Admitted Assets

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## INSURANCE FORUM

Section 202 of the Amended Insurance Code enumerates the assets that may be allowed and admitted for insurance companies. The provision does not include Premiums Receivable as among those admitted assets. Nonetheless, Section 202

(k) recognizes that the Insurance Commissioner may classify “other assets” as admitted assets provided they are “readily realizable and available for the payment of losses and claims at values to be determined by him” and are “not inconsistent with the provisions of paragraph (a) to (j)” of Section 202.

Premiums not yet actually received or collected, in other words those in arrears, were first considered as assets for non-life companies in a Circular Letter dated December 22, 1978. For life companies it was Circular Letter dated November 20, 1981. Today, for life companies, the prevailing rule is provided in Circular Letter No. 11-91, dated May 28, 1991. For life, it is referred to as Net Premiums Due and Uncollected. The difference in treatment (between life and non-life) “lies perhaps in the fact that fire and casualty premiums past due often represent bona fide obligation on the part of the policyholder; whereas unpaid life premiums do not, and are, therefore, only ‘offset assets”.

In the United States, it originated as a balance sheet item labeled “premiums in the hands of agents and in course of collection.” To illustrate the significance of this item in the U.S., it was observed that in 1869, the total assets of insurance companies doing business in New York was reported at US\$229,000,000, of which US\$77,000,000 or 34%, was “premiums notes and due and deferred premiums”. In 1871, the New York Insurance Commission simply non-admitted these assets. Being a perennial question on whether to admit uncollected premiums, the non-life business found the more acceptable 90-day premium cut-off solution.

Under the 1978 circular, premiums from “general agents, not exceeding 90 days, backed up by a surety bond”, and “in an amount equal to at least 1/12 of the general agent’s premium volume for the preceding calendar year or Php 50,000, whichever is higher” may be considered as admitted assets. The 90-day period is reckoned from the date of inception of the policy when the premium is first due. In other words, those premiums which are more than 90 days in arrears will not be admitted as assets. Only those which have been in arrears for 90 days or below may be admitted as assets.

In 1994, in the hope of addressing the margin of solvency problems being faced by non-life insurers, the Insurance Commission reiterated that Premiums Receivable may be considered as admitted assets in Circular Letter 24-94, dated December 12, 1994 (Admitted Assets). This admission would, in effect, increase the assets of insurers. The circular provided: “*Premiums Receivable Account ([from] direct, agents, general agents and insurance brokers) covering policies within 90 days from inception as of the cut-off date, provided that these receivables are supported by an aging schedule showing details per policy; and copies of policies and other pertinent documents are made available to the examiners for verification, otherwise, unverified accounts will be disallowed.*” It also made clear that: “no after-date transaction shall be allowed.” This circular would be reiterated by Circular Letter No. 12-2005, dated April 12, 2005.

Subsequently, CL No. 24-94 was superseded by Circular Letter No. 27-2006, dated June 28, 2006. CL No. 27-2006 essentially maintains the same policy of recognizing premiums receivable “covering policies within 90 days from inception” as admitted assets but added a few more regulations.

It added a cap which “shall not exceed 25% of the premium volume net of commissions”. It also required direct agents, general agents and insurance brokers to file a surety bond. Premiums receivable covering policies beyond ninety (90) days from inception which are outstanding at the end of the calendar year and collected the following year shall be considered as after-date transactions.

CL No. 27-2006 would be superseded by Circular Letter No. 22-2007, dated November 8, 2007. This circular removed the 25% cap as well as the surety bond requirement. It would revert back to rules under CL No. 24-94, removing the additional regulations introduced by CL No. 27-2006.

Circular Letter No. 2014-17, dated May 15, 2014, the prevailing rule for non-life, would reiterate this and expressly supersede CL No. 24-94. CL No. 2014-17 simply reiterates thus: “*Premiums Receivable Account (direct agents, general agents and insurance brokers) covering policies within 90 days from inception as of the cut-off date, provided that these receivables are supported by an aging schedule showing details per policy; and copies of policies and other pertinent documents are made available to the examiners for verification, otherwise, unverified accounts will be disallowed.*”

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