



Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila

Insurance Commission Ruling (ICR) No.:	2018-02
Date:	17 October 2018

MS. PATRICIA ECHAUZ-CHILIP

Chairperson of the Board of Directors
Standard Insurance Company, Inc.
28th Floor, Petron MegaPlaza Building,
358 Sen. Gil Puyat Avenue, Makati City

SUBJECT: Approval of 2013, 2014, 2015 and 2016 Synopses

Dear Ms. Echauz-Chilip:

This refers to the letters of your company's Chief Financial Officer ("CFO"), Ms. Sophia E. Chua, dated 12 September 2018; and counsel, Atty. Reynaldo G. Geronimo, dated 2 July 2018, as regards the subject. In said letters, your company's CFO and counsel respectively raised issues as regards the proper application and interpretation of this Commission's Circular Letters Nos. 2014-17, 2015-29, and 2016-65, particularly on the subject of the treatment of your company's Premiums Receivable amounting to Six Hundred Forty-Nine Million Five Hundred Fifty-Three Thousand Eight Hundred Fifty-Four Pesos and 22/100 (Php 649,553,854.22).

This Commission has found that the arguments of your company's CFO and counsel in their respective letters are misplaced, as will be discussed in the next succeeding paragraphs.

It should be emphasized at the onset that this Commission is in the best position to provide guidance on the proper application and implementation of rules and regulations issued by it, as it has the statutory power and function to do so under Section 437 (d) of Republic Act No. 10607, otherwise known as the Amended Insurance Code of the Philippines.

1. Circular Letter No. 2014-17 remains effective; and was not superseded by Circular Letter Nos. 2015-29 and 2016-65.

Circular Letter No. 2015-29 and Circular Letter No. 2016-65 deal with the "Financial Reporting Framework under Section 189 of the Amended Insurance Code (Republic Act No. 10607)"; while Circular Letter No. 2014-17 deals with "Admitted Assets under the Amended Insurance Code (Republic Act No. 10607)".

The objective of Circular Letter Nos. 2015-29 and 2016-65 is to create financial reporting framework that will serve as a guide in ensuring the transparent and consistent application of accounting principles based on the Philippine Financial Reporting Standards (“PFRS”).¹

Said Financial Reporting Framework (“FRF”) is not the same as the FRF used for general purpose financial statements for the public and filed with other regulators such as the Securities and Exchange Commission (“SEC”) and the Bureau of Internal Revenue (“BIR”). The FRF under Circular Letter Nos. 2015-29 and 2016-65 is specifically intended to be applied on the quarterly and annual reports submitted to this Commission relative to the determination of an insurance company’s compliance with statutory net worth requirements.

On the other hand, Circular Letter No. 2014-17 on the subject of “*Admitted Assets under the Amended Insurance Code (Republic Act No. 10607)*” enumerates the various assets deemed by the Commissioner to be readily available and realizable for the payment of losses and claims and admissible for the purpose of determining said company’s net worth.

As such, the two (2) subject matters of said Circular Letters are **distinct** and **not inconsistent** with each other. This will be discussed in further detail in the next succeeding paragraphs.

I-A. The “recognition” and “measurement” of assets is different from the issue of admissibility or non-admissibility of the same.

In the Miscellaneous Provisions of both Circular Letter Nos. 2015-29 and 2016-65, it is stated that both Circular Letters supersede all previously issued circulars that deal with the “*recognition*” and “*measurement*” of assets and liabilities.

“*Recognition*” is a term which means the **reporting** of an asset, liability, income or expense on the face of the financial statements of an entity.² “*Measurement*” is the process of determining the monetary amounts at which the elements of the financial statements **are to be recognized** and carried in the statement of financial position and income statement.³

It should be understood that certain assets that are recognized under the PFRS are not recognized under the **Regulatory Accounting Principles and Practices** (“RAP”). This is attributed to the fact that RAP-based financial statements are geared more toward the measurement of the solvency of an insurance company; and thus, focus on presenting the accounts of the company on a “liquidation basis”, rather than on a “going-concern basis” under generally accepted accounting principles.⁴

¹ See preambulatory clauses of Circular Letter Nos. 2015-29 & 2016-65.

² Valix, C., et al. [2011]. *Financial Accounting - Volume 1*.

³ *Ibid*.

⁴ Statement of Financial Accounting Standards No. 27.

Consequently, this Commission, as regulator, is clothed with statutory authority under Section 202 of the Amended Insurance Code to determine **which among an insurance company's recognized and measured assets in its financial statements may be admitted or not** in determining the amount of said company's net worth.

It should be emphasized that this Commission issued Circular Letter No. 2014-17 in the exercise of its power under Section 202 (k) of the same Code to allow and admit as assets of an insurance company "other assets, not inconsistent with the provisions of paragraphs (a) to (j) of [the same section], which are deemed by the Commissioner to be readily realizable and available for the payment of losses and claims at values to be determined by him in a circular, rule or regulation."

Considering the foregoing, Circular Letter No. 2014-17 is not among the circular letters superseded by Circular Letter Nos. 2015-29 and 2016-65, because **Circular Letter No. 2014-17 does not pertain to the recognition and measurement of assets and liabilities.**

I-B. The inclusion of Premiums Receivable in the Manual of Accounts should not be construed as removing the ninety (90)-day limit under Circular Letter No. 2014-17.

In the letters of your company's CFO and counsel, they argued that the mention of Premiums Receivable in Section 3 of Circular Letter No. 2016-65 and Section 4 of the *Manual of Accounts* confirms that the same are allowed as admitted assets as part of the FRF. Further, they also claimed that Circular Letter No. 2016-65 effectively obviated the ninety (90)-day limit under Circular Letter No. 2014-17; and that Premiums Receivable should now be admitted as assets regardless of the period, counted from the inception of the policies.

Said arguments are untenable. The prescription of the *Manual of Accounts* was only intended for the purpose of obtaining uniformity in insurance account titles and to have a standardized accounting treatment of insurance assets of all companies that are not specifically listed under Section 202 of the Amended Insurance Code but are likewise not inconsistent with the items listed therein. Therefore, the fact that Premiums Receivable was included in the *Manual of Accounts* is not determinative of the admissibility or non-admissibility of said assets in ascertaining the net worth of a particular insurance company.

At any rate, Premiums Receivable are considered as admitted assets by application of Circular Letter No. 2014-17. However, its admission is limited only to such receivables within ninety (90) days from the inception of corresponding insurance policies as of the cut-off date.

I-C. The guidelines on the admissibility of Premiums Receivable under Circular Letter No. 2014-17 is reflected and adopted in the Manual of Examination of the Insurance Commission that was implemented on 3 January 2018.

The guidelines on the admissibility of Premiums Receivable under Circular Letter No. 2014-17, specifically the guideline that pertains to the ninety (90)-day limit thereunder, is reflected and adopted in the *Manual of Examination* of this Commission. This Commission's *Manual of Examination* effectively recognized the continuing application of Circular Letter No. 2014-17.

The ninety (90)-day rule is effectively reiterated in the table of "*Verification Procedures, Admissibility and Valuation - Asset Accounts*" in the *Manual of Examination*.

Accordingly, the inclusion of the ninety (90)-day rule in the recently issued *Manual of Examination* unequivocally negates the interpretation of your company's CFO and counsel that this Commission intended to abandon said rule.

II. Implementation of Circular Letter No. 2016-65 only began on 1 January 2017; hence, its provisions are inapplicable to the synopsis in contention.

This Commission observed that the synopsis in contention is for the year ending on 31 December 2016.

In relation to said observation, the following antecedents must likewise be noted, to wit:

1. The *Transitional Provisions* of Circular Letter No. 2015-29 dated 10 June 2015 expressly provide that the provisions of the same will only take effect after a transition period, which allows companies to conduct impact studies through the conduct of a parallel run to assess the effects of said Circular Letter;
2. Circular Letter No. 2015-31 was subsequently issued on the subject of the "*Transition Period and Full Implementation Requirements for Financial Reporting Framework, Valuation Standards for Insurance Policy Reserves, and New Risk-Based Capital Framework*". Under Circular Letter No. 2015-31, this Commission set the "*transition cut-off date*" at 1 January 2016 and the full implementation of the FRF on 30 June 2016;
3. After the conduct of the parallel run, this Commission issued Circular Letter No. 2016-65 on 28 December 2016, which amended Circular Letter No. 2015-29 on the subject of the FRF; and

4. On the same date, this Commission issued Circular Letter No. 2016-69 designating the effectivity date of the full implementation of the FRF on **1 January 2017**, thus:

*“After due consultation with stakeholders and consideration of concerns raised, it has been decided that the following new regulatory requirements under their respective Circular Letters (CL) **shall take effect beginning January 01, 2017**:*

1. *Financial Reporting Framework (FRF): CL No. **2016-65**.*

x x x” [Emphasis supplied.]

If only for this reason, the arguments of your company’s CFO and retained counsel in their respective letters are misplaced. **Circular Letter No. 2016-65 cannot be made to apply to the synopsis in contention because it only took effect after the period of said synopsis.** In consequence, the provisions of Circular Letter No. 2014-17 should consequently be made to apply, as it undoubtedly applies.

III. There is nothing inconsistent in recognizing only Premiums Receivable falling within the ninety (90)-day limit while recognizing Allowance for Impairment Losses, Reserve for Unearned Premium, and Taxes Payable for the aggregate amount of all Premiums Receivable during a given period.

In her letter dated 12 September 2018, your company’s CFO argued that:

“xxx [It] is very clear that the total amount of Premiums Receivable must be admitted for the following reasons:

1. *Given that there is a policy for allowance for impairment losses (doubtful accounts), it is already net of amounts deemed uncollectible, thus, it is deemed wholly realizable.*
2. *It is matched with corresponding liabilities recorded under Reserve for Unearned Premium (basic premium) and Taxes Payable (taxes and other charges).*

Generally speaking, it will become erroneous to derecognize portions in the assets and not doing the same in the corresponding liability. This will result in overstated liability and which will overly reduce the Company’s Net Worth.”

Said positions are incorrect. Consider:

1. On the first reason: In connection with the first alleged reason for the admission of the *“total amount of Premiums Receivable,”* this Commission

must reiterate the distinction between the PFRS and the Regulatory Accounting Principles and Practices (“RAP”) as discussed in Part I-A of this letter. To repeat for the sake of emphasis, **certain assets recognized under the PFRS are not necessarily recognized under the RAP.**

The policy for Allowance for Impairment of Losses is in accordance with PAS 39 and adopted in the *Manual of Accounts* under the FRF. However, the FRF under Circular Letter No. 2016-65 is not the same as the FRF used for general purpose financial statements for the public and filed with other regulators. Said general purpose financial statements are those prepared by external auditors and submitted to other regulators such as the SEC and the BIR. These statements are prepared in accordance with the PFRS.

On the other hand, the Annual Statement (“AS”) prepared by every insurance company in accordance with Section 229 of the Amended Insurance Code is different from those prepared by external auditors and submitted to the SEC and BIR. **The AS submitted to this Commission is prepared using the RAP, and not the PFRS.**

The RAP requires a distinction on the treatment of assets, particularly whether said assets are admissible or not pursuant to Sections 202 to 2014 of the Amended Insurance Code. The admitted assets may include such other assets that are deemed by the Insurance Commissioner to be readily realizable and available for the payment of losses and claims to be determined by him in a circular, rule or regulation. (Section 202 [K]; Amended Insurance Code) It is precisely for this reason that Circular Letter No. 2014-17 was issued by this Commission.

Moreover, the non-admitted part of the Premiums Receivable is already net of Allowance for Impairment of Losses.

Accordingly, this Commission will only consider Premiums Receivable falling within ninety (90)-day limit as admitted assets by application of Circular Letter No. 2014-17. The ninety (90)-day limit was prescribed by this Commission in assurance that all Premiums Receivable within said period are “*readily realizable and available for the payment of losses and claims*”.

2. On the second reason: It is well for your company to note that only on the condition that an insurance company is able to present its Premiums Receivable on a **gross** basis that the corresponding taxes and commissions pertaining to Premiums Receivable beyond the ninety (90)-day limit may be considered.

Concerning the issue of the Reserve for Unearned Premium, note that Section 219 of the Amended Insurance Code provides that:

*“Section 219. Every insurance company, other than life, shall maintain a reserve for unearned premiums **on its policies in force**, which shall be charged as a liability in any determination of the financial condition. x x x”*
[Emphasis supplied.]

Such being the case, the basis for computation of the Reserve for Unearned Premium is the aggregate of all policies in force during a given period, regardless whether the premiums on said policies are due within or beyond the ninety (90)-day limit under Circular Letter No. 2014-17.

Considering the foregoing, there is nothing inconsistent in recognizing only Premiums Receivable falling within the ninety (90)-day limit while recognizing Allowance for Impairment Losses, Reserve for Unearned Premium, and Taxes Payable for the aggregate amount of all Premiums Receivable during a given period.

IV. The ninety (90)-day rule has been consistently applied throughout the history of insurance regulation. Hence, there is no cogent reason for this Commission to deviate therefrom at this juncture.

Premiums not yet actually received or collected, in other words those in arrears, were first considered as assets for non-life companies in Circular No. 65, dated 12 September 1966 (*Rules and Regulations on the Allowance or Disallowance of Assets of Insurance Companies*). This was subsequently reiterated in a Circular Letter dated 22 December 1978. For life companies, it was Circular Letter dated 20 November 1981. Today, for life companies, the prevailing rule is provided in Circular Letter No. 11-91, dated 28 May 1991. For life, it is referred to as Net Premiums Due and Uncollected.

Under the 1978 circular, premiums from “*general agents, not exceeding 90 days, backed up by a surety bond*”, and “*in an amount equal to or at least 1/12 of the general agent’s premium volume for the preceding calendar year or Php 50,000.00, 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 ninety (90) days in arrears will not be admitted as assets. **Only those which have been in arrears for ninety (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, this Commission reiterated that Premiums Receivable may be considered as admitted assets in Circular Letter 24-94, dated 12 December 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 detail 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 12 April 2005.

Subsequently, CL No. 24-94 was superseded by Circular Letter No. 27-2006, dated 28 June 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 8 November 2007. This circular removed the twenty-five percent (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. CL No. 22-2007 now provides: *“Premiums Receivable Accounts (ordinary agents, general agents and insurance brokers) **covering policies within ninety (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.”* It also made clear that: *“Premiums Receivable Accounts due over ninety (90) days from inception date as of the cut-off date which were disallowed but were collected and remitted to the Head Office within the first quarter following the cut-off date shall be considered as after-date transaction,”* provided certain documents were submitted.

Circular Letter No. 2014-17, dated 15 May 2014, the prevailing rule for non-life insurers, would reiterate this and expressly supersede CL No. 24-94. CL No. 2014-17 simply reiterates thus: *“Premiums Receivable Accounts (ordinary agents, general agents and insurance brokers) **covering policies within ninety (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.”*

The foregoing discussion clearly shows that the ninety (90)-day rule has been **consistently applied** throughout the history of insurance regulation. Accordingly, **there is no cogent reason for this Commission to deviate therefrom at this juncture.**

This Commission trusts that it has clearly explained its position on the matter.

For your information and guidance.

Very truly yours,


DENNIS B. FUNA
Insurance Commissioner



Copy furnished:

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