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CIRCULAR LETTER

TO : ALL INSURANCE COMPANIES, MUTUAL BENEFIT ASSOCIATIONS AND COOPERATIVE INSURANCE SOCIETIES DOING BUSINESS AND OPERATING IN THE PHILIPPINES

SUBJECT : PERFORMANCE STANDARDS FOR MICROINSURANCE

WHEREAS, on January 29, 2010, the Insurance Commission, in collaboration with other government agencies and private sector entities, launched the Regulatory Framework for Microinsurance specifying the details for the establishment of an appropriate policy and regulatory environment that will facilitate the increased participation of the private sector in the delivery of microinsurance products and services;

WHEREAS, in line with the Regulatory Framework, the Insurance Commission issued Insurance Memorandum Circular No. 01-2010 that provides for, among others, the establishment of a set of performance standards on which insurance companies, cooperative insurance societies and mutual benefit associations providing microinsurance products and services (hereinafter collectively referred to as microinsurance entities) shall be evaluated and monitored;

WHEREAS, the set of performance standards shall cover the areas of solvency and stability, efficiency, governance, understanding of the product by the client, risk-based capital, outreach, and such other areas deemed by the Insurance Commission to be critical to the continuing viability, growth, and development of the microinsurance industry; and

WHEREAS, the set of performance standards is necessary for the Commission, the management of microinsurance entities and other interested parties to determine whether the operations in the delivery of microinsurance products and services (as defined under IMC No. 01-2010) by microinsurance entities are being conducted in a viable and sustainable manner;

NOW, THEREFORE, pursuant to the authority vested to the Commissioner under Section 414 of the Insurance Code, as amended, the following are hereby promulgated:

1. The Performance Standards for Microinsurance (attached hereto as Annex 1 and made an integral part of this Circular) are hereby adopted as the Microinsurance industry benchmarks in assessing and evaluating the operations of all microinsurance providers beginning calendar year 2011.

2. The Performance Standards shall specifically apply to entities providing microinsurance products

3. Relevant information reflected in the Annual Statements and audited financial statements of insurance companies, cooperative insurance societies and mutual benefit associations shall be used as basis in the computation of the ratios and indicators embodied in the Performance Standards.

4. Microinsurance entities shall submit to the Commission on or before April 30, 2012 and every year thereafter the resulting indicators covering their previous year's operations by using the set of Performance Standards and the corresponding Annual Statements.

5. In the interest of the general public and for increased transparency, the Insurance Commission reserves the right to use the results of the evaluation using the Performance Standards in coming up with a status report on the microinsurance industry as a whole without necessarily divulging any confidential information submitted by each reporting microinsurance entity.

6. The Insurance Commission shall use the Performance Standards to identify as early as possible entities whose financial conditions and/or performance on microinsurance operations are concerns and if warranted, recommend appropriate remedial measures.

7. The Performance Standards shall be subject to review at least once in every three (3) years in collaboration with concerned stakeholders.

The Insurance Commission may issue such other guidelines as it may deem necessary to enforce the provisions of this Circular.

All rules, regulations and issuances inconsistent with this circular are hereby deemed amended, modified or repealed.

This Circular takes effect immediately.

EMMANUEL F. DOOC
Insurance Commissioner

Annex 1
Performance Standards for
Microinsurance in the Philippines

1. **The Performance Standards for Microinsurance**[1]

The indicators are divided into the following categories: **S**olvency and Stability; **E**fficiency; **G**overnance, **U**nderstanding of the product by the client, **R**isk Based Capital, and **O**utreach (**SEGURO**). Indicators under Solvency and Stability, and Risk-Based Capital shall apply to the provider's total operations while indicators under Efficiency, Governance, Understanding of the Product and Outreach shall apply to the provider's microinsurance operations only. The specific indicators are discussed below:

1.1. **S**olvency and Stability - Indicators under this category measure the degree of safety, soundness and strength of the microinsurance provider.

1.1.1. **Margin of Solvency Ratio** - This determines the ability of the provider to cover all its liabilities including claims of clients after satisfying its Margin of Solvency (MOS) Requirement.

> ***Margin of Solvency (MOS) Ratio = Total Available Assets / Total Liabilities***
>
> *Where:*
>
> ***Total Available Assets*** = *Total Admitted Assets – Fluctuation Reserve – Revaluation Reserve – Minimum MOS Requirement*
>
> ***Minimum MOS Requirement*** *is:*
>
> ***For MBAs:***
>
> ***Minimum MOS Requirement*** = *Minimum Guaranty Fund Requirement, or 0.001 (Total Insurance In Force – Aggregate Reserve), whichever is higher*

[1] The indicators and standards took into consideration the Performance Standards for Micro insurance that were developed by the CGAP and IAIS Working Group on Microinsurance Performance Standards.

> ***For Life:***
>
> ***Minimum MOS Requirement*** *= (Total Amount of Insurance In Force –Total Insured Amount of Term Insurance) x 0.002 OR Php 500,000 whichever is higher*
>
> ***For Non-Life:***
>
> ***Minimum MOS Requirement*** *= Net Premiums Written Prior Year x 10% OR Php 500,000 whichever is higher*

1.1.2. **Liquidity Ratio** – This determines the ability of the microinsurance provider to pay claims and meet current obligations. Any insurance provider should have sufficient cash or cash equivalent in the short term to meet these obligations.

> ***Liquidity Ratio = Current Assets/Current Liabilities***
>
> *Where:*
>
> ***Current assets*** *include cash, short-term investments and receivables maturing within one year.*
>
> ***Current liabilities*** *include claims, reserves, taxes, and other liabilities due or payable within one year*

1.1.3. **Leverage Ratio** — This measures the extent to which the Members' Equity or Networth is able to finance and cover the total liabilities of the microinsurance provider should any untoward events occur.

> ***For Life and Non-Life:***
>
> ***Leverage Ratio = Total Liabilities / Networth***
>
> ***For MBAs:***
>
> ***Leverage Ratio = Total Liabilities / Members' Equity***
>
> *Where: Member's Equity is defined as the difference between the Total Admitted Assets and the Total Liabilities*

1.2. Efficiency – Indicators under this category determine the ability of the ***microinsurance business*** to generate sufficient earnings to cover the expenses and claims incurred. These include a ratio that determines how fast claims of clients are paid.

1.2.1. **Underwriting Costs Ratio** – This indicates if the gross premiums of the microinsurance business are able to cover direct expenses (i.e. all expenses related to underwriting) related to the issuance of microinsurance contracts.

For Non-Life:

Underwriting Costs Ratio = Underwriting Costs/ Gross Premiums

Where:

Underwriting costs *are expenses directly related to the underwriting of the microinsurance business (transactional and incremental expenses) such as commissions and other underwriting expenses.*

Gross premiums *refers to the direct microinsurance business premiums, net of cancellations*

For Life:

Underwriting Costs Ratio = Underwriting Costs/Gross Premiums

Where:

Underwriting Costs = *are expenses directly related to the underwriting of the microinsurance business such as commissions and other selling expenses + transactional taxes (excluding income tax) + other incremental or transactional expenses*

Gross premiums *refer to the direct microinsurance business premiums, net of cancellations*

1.2.2. ***Operating Expense Ratio*** – This shows the portion of gross premiums needed or required to cover the microinsurance provider's operating expenses.

> ***For Life and Non-Life***
>
> ***Operating Expense Ratio = operating expenses/gross premiums***
>
> *Where operating expenses are all other expenses not included in the direct expenses*
>
> ***For MBAs***
>
> ***Operating Expense Ratio = operating expenses/gross contributions***

1.2.3. ***Claims or Loss Ratio*** – This indicates the proportion of the premium that goes to the benefits that were paid to the insured. It also indicates the value of microinsurance to the insured as it measures the average proportion of premium that is returned to the insured in the form of benefits.

> ***For life:***
>
> ***Claims Ratio = Death Claims / (Beginning Reserves + Gross Premiums)***
>
> *Where:*
>
> ***Gross claims*** = *All benefit claims from direct microinsurance business*
>
> ***Gross premiums*** = *direct microinsurance business premiums*
>
> ***For non-life:***
>
> ***Loss Ratio = Losses Incurred / Premiums Earned***
>
> *Where:*

Losses incurred from microinsurance business = losses paid during the year + outstanding losses current year – outstanding losses previous year

Outstanding losses include incurred but not reported (IBNR)

Premiums earned from microinsurance business = gross premiums net of cancellations + assumed – ceded – change in reserves

For MBAs:

Claims Ratio = Death Claims/{25%(Basic contributions) + 80%(optional contributions) + Beginning Reserves for Permanent Life Plans}

1.2.4. **Time to pay-out** for microinsurance claims– This shows how long it takes for a client to receive payment from the microinsurance provider after the submission of the complete set of required claims documents. A short time to pay-out indicates good service and good value of insurance to the client.

Time to pay-out ratio for microinsurance claims = No. of Claims Paid within 10 working days/Total No. of Claims

A Schedule indicating date of payment claims and date of receipt of complete set of required claims documents are provided in the Annual Statement

1.3. **G**overnance - This determines if the conduct of the microinsurance business complies with the principles of good governance. In compliance to the existing IC Corporate Governance Principles and Leading Practices, entities engaged in microinsurance shall also be required to answer the questions provided for in Attachment 2. These questions shall be in addition to those provided under the Corporate Governance Scorecard under Circular Letters Nos. 21 – 2009 and 1 – 2010.

1.4. **U**nderstanding the Value of Microinsurance Product by the Client – This comprises a set of indicators that determines clients' understanding of the product and services provided by the microinsurance provider. Client's understanding is indicated by their perception of the value of the microinsurance product.

1.4.1. **Renewal Ratio** – This indicates how microinsurance clients are satisfied with the insurance provider and its microinsurance products.

> ***Renewal Ratio = Number of in-force policies and certificates, current year / [number of in-force policies and certificates, previous year + number of new policies and certificates during the year – number of policies and certificates terminated during the year]***
>
> *Note: An additional Exhibit for Life, Non-Life and MBAs to generate needed information is included in the Annual Statement.*

1.4.2. **Claims Rejection Ratio** – This indicates the proportion of microinsurance claims rejected by the insurance provider to the total number of microinsurance claims filed by the clients. This may indicate how well the insured understands the product.

> ***Claims Rejection Ratio = No. of Claims denied/ No. of all claims filed***
>
> *Note: The data for the numerator and the denominator should come from the same period.*

1.5. **R**isk-Based Capital Ratio – This indicator determines the sufficiency of the insurer's capital to support the degree of risks associated with the entity's operations and investments. RBC requirement is the minimum amount of capital that the regulatory authorities feel is necessary to support the insurance operations and the risks faced by the provider. Risk-Based Capital Requirement for each of the insurance providers shall be computed in accordance with pertinent prevailing circulars of the Insurance Commission.

1.6. **O**utreach –Indicators under this category determine the extent of the microinsurance business.

1.6.1. **Growth in the number of microinsurance clients**

> ***Growth in the number of microinsurance clients = (No. of microinsurance policies and certificates current year/ no. of microinsurance policies and certificates, previous year) - 1***
>
> *Note: Microinsurance individual policies shall be used as basis for the number of clients. In the case of group policies, the number of certificates issued shall be used.*

1.6.2. **Growth in the volume of microinsurance business**

> ***Growth in the volume of microinsurance business = (Amount of microinsurance premiums collected, current year / Amount of microinsurance premiums collected, previous year) - 1***
>
> *Note: Premiums refer to direct microinsurance premiums collected by the insurance provider.*

2. **Data to be used for the Performance Standards**

The data and information submitted to the Insurance Commission using the revised Annual Statements for Life Insurance Companies, Non-life Insurance Companies and Mutual Benefit Associations shall be used in computing for the Performance Standards for Microinsurance Operations. In this regard, the Exhibit pertaining to non-admitted assets shall be properly filled out in the Annual Statements in accordance with the provisions of the Insurance Code.

Attachment 1

Performance Standards Scores and Weights

Category	Indicator	Formula	Standards	Max Score	Resulting Ratio	Equivalent Points
STABILITY				**30**		
	Margin of Solvency (MOS) Ratio	Margin of Solvency Ratio = Total Available Assets /Total Liabilities	≥ 100%	20	≥ 100% <100%	20 0
	Liquidity Ratio	Liquidity ratio = Current Assets/Current liabilities	≥ 100%	5	≥100% <100%	5 0
	Leverage Ratio	**For Life and Non-Life:** Leverage Ratio = Total Liabilities/ Networth **For MBAs:** Leverage Ratio = Total Liabilities/Member's Equity	≥0 to ≤ 400%	5	≥0 to ≤ 400% >400% to ≤ 500% >500% to ≤600% >600% or <0%	5 3 1 0

Category	Indicator	Formula	Standards	Max Score	Resulting Ratio	Equivalent Points
EFFICIENCY				20		
	Underwriting Costs Ratio	**For Life**: Underwriting Costs Ratio = underwriting costs/gross premiums	≤ 40%	5	≤ 40%	5
		For Non-life: Underwriting cost ratio = underwriting costs/ gross premiums			>40% to 50%	3
		Note: The underwriting cost of the MBAs, if any, is included in their operating expense ratio			> 50%	0
	Operating Expense Ratio	**For Life and Non-Life:** Operating Expense Ratio = operating expenses/gross premiums	≤ 30%	5	≤30%	5
					>30% to 40%	3
					> 40%	0
		For MBAs: Operating Expense Ratio = operating expenses/ gross contributions	≤ 10%	10	≤ 10%	10
					>10% to 15%	7
					>15% to 20%	4
					>20%	0
	Claims/Loss Ratio	**For Life**: Claims Ratio = death claims / (beginning reserves + gross premiums)	>40% to 50%	6	>40% to 50%	6
		For Non-Life: Loss Ratio = losses incurred / premiums earned			20% to 40% and >50 to 60%	3

Category	Indicator	Formula	Standards	Max Score	Resulting Ratio	Equivalent Points
					<20% and > 60%	0
		For MBAs: Claims Ratio = death claims / [25% (Basic Contributions) + 80% (Optional Contributions) + beginning reserves for permanent life plans]	> 75% to 100%	6	>75% to 100%	6
					>50% to 75%	3
					≤ 50% and > 100%	0
	Time to pay-out	Time to pay-out Ratio = No. of Claims Paid within 10 working days/Total No. of Claims	100%	4	100%	4
					<100%	0
GOVERNANCE				**15**		
	See Attachment 2			15	= 100%	15
					70 to < 100%	10
					50 to <70%	5
					< 50%	0
UNDERSTANDING OF THE PRODUCT BY THE CLIENT				**10**		
	Renewal Ratio	Renewal Ratio = Number of in-force policies and certificates, current year / [number of in-force policies and certificates, previous year + number of new policies and certificates during the year – number of policies and certificates terminated during the year]	> 75%	7	> 75%	7
					50% to 75%	4
					< 50%	0

Category	Indicator	Formula	Standards	Max Score	Resulting Ratio	Equivalent Points
	Claims Rejection Ratio	Claims Rejection Ratio = No. of Claims denied/ No. of all Claims filed	≤ 1%	3	≤ 1%	3
					>1% to 2%	2
					> 2%	0
RISK BASED CAPITAL				20		
	Risk-Based Capital Ratio	Risk Based Capital Ratio = Networth/Risk Based Capital (RBC) requirement	≥ 125%	20	≥ 125%	20
					115% to <125%	15
					100% to <115%	10
					< 100%	0
OUTREACH				5		
Outreach	Growth in the number of microinsurance clients	Growth in the number of microinsurance clients = (No. of microinsurance policies and certificates, current year / No. of microinsurance policies and certificates, previous year) - 1	≥ 0%	2	≥0%	2
					<0	0

Category	Indicator	Formula	Standards	Max Score	Resulting Ratio	Equivalent Points
	Growth in the volume of microinsurance business	Growth in the volume of microinsurance business = (Amount of microinsurance premiums collected, current year / Amount of microinsurance premiums collected, previous year) - 1	≥ 0%	3	≥0%	3
					<0	0
	TOTAL			100		

Attachment 2

Checklist for Microinsurance Governance

		Yes	No	Equivalent Points
Compliance to Corporate Governance Principles and Leading Practices **I.Fair and equitable treatment of stakeholders particularly of members/policy holders**	**Have you complied with all the evaluation requirements in the previous year/s concerning Corporate Governance Principles and Leading Practices?**			2
	For MBAs and cooperative insurance entities organized in compliance with the provisions of IC-CDA-SEC Joint Memorandum Circulars:			
	Were the funds collected from entities engaged in informal insurance activities transferred to the new entity as funds collectively owned by members?			2
II. The role of the stakeholders	**For all entities engaged in Microinsurance**			
	Does the company/entity provide information and education program for its MI clients highlighting the roles and responsibilities of both provider and clients?			2
III. Disclosure and transparency	**For all entities engaged in Microinsurance**			
	Does the company provide appropriate disclosure and transparent information on its obligations to MI clients?			2
	In the case of bundled products, does the company require its partner MI agents (MFIs) to disclose to its clients the issuing insurance company that is principally accountable to them?			2
	In the case of MBAs and cooperative insurance entities:			
	Is there appropriate disclosure on the salaries and remuneration of the board and the management to the member-owners?			2
	Is there a disclosure to the members and IC of the pre-operating expenses that have been approved by the Board?			2
	Have the majority of the board attended at least 16 hours of relevant training on insurance operations and financial management?			2

NOTE: The microinsurance provider gets 2 points for every "yes" answer and 0 for every "no" answer to all applicable questions. The total points earned are then summed up and is divided by the sum of the required no. of points for all of the applicable questions.