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CIRCULAR LETTER

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

SUBJECT : ENHANCED PERFORMANCE INDICATORS AND STANDARDS FOR MICROINSURANCE 2016

WHEREAS, the Insurance Commission, in collaboration with other government agencies and private sector entities, launched the *Regulatory Framework for Microinsurance* on 20 January 2010, the *Enhanced Regulatory Framework for Microinsurance* on 16 October 2015, and the *Agriculture Microinsurance Framework* on 15 October 2015, 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 indicators and standards on which insurance companies, cooperative insurance societies, and mutual benefit associations providing microinsurance products and services (herein collectively referred to as microinsurance providers) shall be evaluated and monitored in regards to their operational performance and degree of compliance with certain aspects of the Insurance Code, aforementioned frameworks, and all other regulations pertaining to microinsurance provision;

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

WHEREAS, the set of performance indicators and standards is necessary for the Commission, the management of microinsurance providers, insureds, and other interested parties to determine whether the operations in the delivery of microinsurance products and services (as defined under IMC No. 01-2010, CL No. 53-2015, and CL No. 54-2015) by microinsurance providers are being conducted in a viable and sustainable manner;

WHEREAS, in line with these provisions the Insurance Commission issued Circular Letter No. 5-2011 *Performance Standards for Microinsurance* describing the performance indicators and standards for microinsurance and which calls for a periodic review of the performance standards in collaboration with industry stakeholders;

NOW, THEREFORE, pursuant to the authority vested to the Commissioner under Section 437 of the Insurance Code, as amended, the following are hereby promulgated:

1. The *Enhanced Performance Indicators and Standards for Microinsurance 2016* (attached hereto as Annex I 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 in calendar year 2017;

2. The *Enhanced Performance Indicators and Standards for Microinsurance 2016* shall specifically apply to all entities providing microinsurance products;

3. Relevant information reflected in the Annual Statements and audited financial statements of microinsurance providers shall be used as a basis in the computation of the performance indicators;

4. Microinsurance providers shall submit to the Commission on or before 30 April 2017 and every year thereafter the resulting indicators covering their previous year's operations by using the set of *Enhanced Performance Indicators and Standards for Microinsurance 2016* 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 resulting from the *Enhanced Performance Indicators and Standards for Microinsurance 2016* in coming up with and publishing a status report on the microinsurance industry as a whole without necessarily divulging any confidential information submitted by each reporting microinsurance entity.

6. To provide feedback to microinsurance providers regarding their individual relative performance vis-à-vis the rest of the industry, the Insurance Commission may occasionally publish a consolidated summary of the calculated performance indicators and a ranking of

providers by each performance indicator without revealing the identities of providers.

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

8. The performance indicators and standards shall be subject to review at least once 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.

DENNIS B. FUNA
Officer-In-Charge

ANNEX 1

Enhanced Performance Indicators and Standards for Microinsurance 2016

1. The Performance Indicators for Microinsurance

The indicators are divided into the following categories: Solvency and Stability; Efficiency; Governance; Understanding of the product by the insured; Rate of Growth; and Outreach (**SEGURO**). Indicators under Solvency and Stability apply to a microinsurance risk carrier's (insurer, MBA, or other) entire operations while the scope of the remaining categories is limited to the provider's microinsurance operations.

For purposes of reporting to the regulator, performance indicators should be calculated on the entire microinsurance portfolio unless indicated otherwise in this document. To better ascertain the performance of certain products or product categories, it is helpful to calculate the performance indicators separately for each product or product category.

It is best to calculate the performance indicators on a more frequent basis than annually. As the term implies, indicators point towards performance of the important areas within a microinsurance program. Aside from being a regulatory requirement, they should be seen as an important management tool. When graphed over time, the trends in indicator values tell a story especially when viewed in combination, and may be regarded as an early warning system of developing issues. For management purposes, additional indicators may be added by the various players involved in microinsurance provision.

1.1 Solvency & Stability

Indicators under this category measure the degree of safety, soundness, stability, and financial strength of the microinsurance provider.

1.1.1 Solvency

Solvency indicators are a good measure of financial strength of the entities carrying the insurance risk.

> *__For Life and Non-Life,__ use the Capital Adequacy Ratio (CAR) for RBC2:*
> *__Capital Adequacy Ratio (CAR) = Total Available Capital / RBC Capital__*
> *__Requirement__*
>
> *If RBC2 is not yet implemented, then use the original RBC calculation, and compute CAR as follows:*
> *__Capital Adequacy Ratio (CAR) = Networth / RBC Requirement__*
>
> *__For MBAs,__ use a solvency ratio defined as follows:*
> *__Solvency Ratio (SR) = (Admitted Assets – Required Guaranty Fund) / Total__*
> *__Liabilities__*

The Capital Adequacy Ratio (CAR) indicates the sufficiency of the insurer's capital to support the degree of risks associated with its operations and investments. The Risk-Based Capital (RBC) Requirement is the calculated minimum amount of capital to support the insurance operations and the risks faced by the insurer. The RBC Capital Requirement for each insurer should be computed in accordance with pertinent prevailing circulars of the Insurance Commission.

In determining their Solvency Ratio, MBAs (both micro and regular) should calculate the Required Guaranty Fund as prescribed by the Insurance Commission.

The Solvency indicators are a measure of financial strength implying the degree with which a risk-carrier is able to meet its obligations. In addition, the indicators may be used to compare risk-carriers of the same type by ranking them in order of solvency / financial strength.

1.1.2 Liquidity ratio

This indicator determines the ability to pay claims quickly and meet other current obligations.

Liquidity Ratio (LR) = Current Assets / Current Liabilities

<u>*Where:*</u>
Current Assets *includes cash, short-term investments, and receivables maturing within one year.*
Current Liabilities *includes claims, reserves, taxes, and other liabilities due or payable within one year.*

<u>*For MBAs:*</u>
MBAs may regard the proportion of the Member Equity Fund and Retirement Savings Fund that is expected to be paid out to terminating members in the next 12 months as a current liability. There are two types of terminating members: those who resign unexpectedly before reaching maximum age and those that reach maximum age (retirees). The amounts to be released from both of these funds for resigning members must be estimated using past experience, while the amounts to be released for retiring members can be projected.

Liquidity Ratio (LR) = Current assets / [(Factor * (Individual Equity Value + Retirement Savings Fund)) + projected Member Equity Fund releases for retirees + projected Retirement Savings Fund releases for retirees +other current liabilities]

<u>*Where:*</u>
- *Factor = sum of withdrawals from Individual Equity Fund and from Retirement Savings Fund resulting from resigning members only in the past two years / sum of prior Year-End Individual Equity Value Fund and Year End Retirement Savings Fund at the end of the past two years= $(wie_{y-1} + wie_y + wrs_{y-1} + wrs_y) / (MEF_{y-1} + MEF_y + RSF_{y-1} + RSF_y)$*
- *wie_y is the sum of withdrawals from Individual Equity Fund paid out to resigning members in the current year (in the past 12 months)*
- *wie_{y-1} is the sum of withdrawals from Individual Equity Fund paid out to resigning members in the previous year (in prior months 13 to 24)*
- *wrs_y is the sum of withdrawals from Retirement Savings Fund paid out to resigning members in the current year (in the past 12 months)*
- *wrs_{y-1} is the sum of withdrawals from Retirement Savings Fund paid out to resigning members in the previous year (in prior months 13 to 24)*
- *MEF_y - the level of the Individual Equity Fund at the beginning of the current year (12 months ago)*
- *MEF_{y-1} was the level of the Individual Equity Fund at the beginning of the previous year (24 months ago)*
- *RSF_y - the level of the Individual Equity Fund at the beginning of the current year (12 months ago)*
- *RSF_{y-1} was the level of the Individual Equity Fund at the beginning of the previous year (24 months ago)*

NOTE: separate factors could be calculated and applied for estimating withdrawals from Member Individual Equity and for Retirement Savings Fund however the resulting estimate would be similar.

Current Assets and Current Liabilities may be taken from the annual financial statements.

Claims, expenses, and other current obligations may only be paid in a timely manner if there is sufficient cash or cash equivalent on hand.

A liquidity ratio should not be too high since this would normally indicate foregone investment opportunities. Risk-carriers should employ regular asset-liability duration matching to guide their investment decisions.

1.1.3 Leverage ratio

The Leverage Ratio measures the extent to which an MBA's Fund Balance or an insurer's Networth are able to finance their Total Liabilities should any untoward event occur.

> *Life and Non-Life:*
> *Leverage Ratio = Total Liabilities / Networth*
>
> *For MBAs:*
> *Leverage Ratio = Total Liabilities / Fund Balance*
>
> *Where:*
> - *Fund Balance is defined as the difference between Total Admitted Assets and Total Liabilities.*

A risk carrier's Total Liabilities, generally, are funded almost entirely by its actuarial reserves which normally include margins for adverse deviations from its expected experience. Therefore, if computed correctly, actuarial reserves will be sufficient to finance future benefits and most expenses that will not be funded by future premiums.

The Leverage Ratio as defined here indicates the proportion of Total Liabilities that could be funded from an insurance company's Networth or an MBA's Fund Balance if liabilities resulting from an unusual event would drain actuarial reserves. A low ratio is thus an indicator of additional safety for the insureds.

1.2 Efficiency

Indicators in this category measure show how efficiently microinsurance is delivered to the customer. Greater efficiency enables higher profitability (which enhances sustainability and equity value) and more valuable products (i.e. more benefits and services may be provided for the premium paid).

1.2.1 Underwriting Costs Ratio

Applicable only to life and non-life companies (i.e. not MBAs), this indicator measures the proportion of microinsurance premiums that are needed to cover direct (underwriting) expenses.

Underwriting Costs Ratio = Underwriting Costs / Earned Premium

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), and other transactional and incremental expenses related to selling and underwriting.*

For Life:
Earned premium = Net Premium Income – increase in Unearned Premium Reserve (UPR)

For Non-Life:
Earned premium = Net Premium Written – increase in Unearned Premium Reserve (UPR)

Notes:
- *Increase in UPR = current UPR – previous UPR*
- *Net Premium Income = gross premium + assumed premium – ceded premium*
- *Net Premium Written = gross premium + assumed premium – ceded premium*
- *Since Earned Premium is used in the denominator, commissions and similar expenses incurred upfront should be amortized over applicable periods.*

The UPR is calculated using acceptable actuarial methods and will vary by product. UPR calculations are subject to applicable regulations.

A low Underwriting Costs Ratio indicates that acquisition of the microinsurance business is efficient, making more of the premium available for investment and to fund benefits, profits, and other expenses.

1.2.2 Operating Expense Ratio

The operating expense ratio shows the proportion of microinsurance premiums or contributions that are needed to cover operating expenses.

For Life and Non-Life:
Operating Expense Ratio(OPER) = Operating Expenses / Earned Premium

For Life:
- Earned premium = Net Premium Income – increase in Unearned Premium Reserve (UPR)
- Net Premium Income = gross premium + assumed premium – ceded premium

For Non-Life:
- Earned premium = Net Premium Written – increase in Unearned Premium Reserve (UPR)
- Net Premium Written = gross premium + assumed premium – ceded premium

For MBA Basic Product:
Operating Expense Ratio(OPER) = Operating expenses allocated to the basic product / Earned Contributions

Where:
- Earned Contributions = Net Contributions – increase in Unearned Contributions Reserve (UCR)
- increase in UCR = current UCR – previous UCR
- Net Contributions = (gross contributions – member equity portion) – ceded contributions (since MBAs cannot assume risk from other risk carriers)

For MBA Optional Products:
Operating Expense Ratio(OPER) = Operating expenses allocated to optional products / Earned Premium
Where:
- Earned Premium = Net Premium Income – increase in Unearned Premium Reserve (UPR)
- increase in UPR = current UPR – previous UPR
- Net Premium Income = gross premium income – ceded premium (since MBAs cannot assume risk from other risk carriers)

Notes for MBAs:
- In calculating the operating expenses for an MBA's basic and optional products, some of its fixed overhead expenses should be allocated using the annual contributions and premiums collected during the applicable period as a basis.
- Expenses and benefits funded from an MBA's free and unassigned surplus as permitted by the Insurance Code as Amended and other regulations should not be included in the operating expenses.

General Note:
- Investment expenses and reinsurance expenses should not be included here.

The UPR/UCR is calculated using acceptable actuarial methods and will vary by product. As well, these calculations must be compliant with applicable regulations.

A low operating expense ratio indicates that the operations of the provider is efficient, making more of the premium and contribution available for investment and to fund benefits, profits, and other expenses.

It is also useful to monitor the overall expense ratio which may be computed as *(Underwriting Costs + Operating Expenses + Investment Expenses + Cost of Reinsurance) / Earned Premium,* where *Cost of Reinsurance is Reinsurance Premium − Claims Recovered from Reinsurance.*

1.2.3 On-time Claims Settlement Ratio

This indicator shows the proportion of claims that were settled within the *standard claims settlement time for microinsurance* which is currently set at ten (10) working days after a claim is filed with complete documents.

On-time Claims Settlement Ratio =
Number of claims filed in the period and settled within 10 working days / Number of claims filed in the period

Where:
- *Only claims with complete documentation are assumed to be filed;*
- *As used in this section, "Settled claim" shall mean that the claim was denied/resisted, paid, or the beneficiary received an ex-gratia payment*
- *"The period" in this case refers to the IC reporting period, i.e. calendar year.*
- *The <u>observation period</u> on whether or not the claim was settled within the standard required period must be at least 10 working days after the period end.*

Notes:
- *In the case of total permanent disability (TPD) claims which require an observation period, the claim is not considered filed with complete documents until a determination is made with regards to TPD.*
- *In case of multiple benefits under one contract, a claim for every benefit is treated independently and counted separately.*

If the On-time Claims Settlement Ratio is high, the provider has a fast turn-around time which is very important for microinsurance beneficiaries.

1.2.4 Incurred Claims Ratio

The Incurred Claims Ratio shows the proportion of microinsurance premiums or contributions that are paid out in the form of benefits and services within a particular period such as a calendar year.

Formula for Life and Non-Life:
Incurred Claims Ratio (ICR) = Incurred Claims / Earned Premium

(See notes on Earned Premium in the Operating Expense Ratio section)

Formula for MBAs:
Incurred Claims Ratio (ICR) = Incurred Claims / (Earned Contributions + Earned Premium)

(See notes on Earned Contributions and Earned Premium in the Operating Expense Ratio section)

Notes for Life and MBAs:
Incurred claims = benefits paid during the period + Increase in Claims Payable

Where: Increase in Claims Payable includes sum of increase in Incurred But Not Reported Reserve (IBNR), increase in Claims in Course of Settlement (CICS), increase in Due and Unpaid Claims, Denied and Resisted Claims, and any other category of Claims Payable (i.e. Claims Reserves)

Additional notes:
- *Increase in IBNR = increase in Incurred But Not Reported claims = current IBNR – IBNR end of the previous period*
- *Increase in CICS = increase in Claims In Course of Settlement = current CICS – CICS end of the previous period*
- *Etc.*

For Non-Life:
Incurred claims = net losses paid + outstanding losses current year – outstanding losses previous year

Where:
- *Net losses paid = Losses paid – recoveries from reinsurance*
- *Outstanding losses should be net of expected recoveries from reinsurance*

For reporting purposes, the Incurred Claims Ratio should be calculated net of reinsurance.

An efficient risk carrier is able to maintain a higher incurred claims ratio and still remain profitable because more of the premium is available for paying benefits and for investment.

If made available to the consuming public, this ratio is one of the best ways to compare insurers and products for best value.

1.3 Governance

This section determines if the conduct of the microinsurance business complies with the principles of good governance.

1.3.1 ASEAN Corporate Governance Scorecard (ACGS)

See Circular Letter No. 2015-23 for instructions on how to complete the ACGS.

The entity shall be rated based on the score of its latest assessed ACGS.

1.3.2 Additional Governance Questions

In addition to the ACGS, entities engaged in microinsurance are required to answer <u>all of the questions</u> below. These questions are in addition to those provided under the ACGS.

I. ASEAN Corporate Governance Scorecard	
1	Have you accomplished all the evaluation requirements concerning the ASEAN Corporate Governance Scorecard within the prescribed time? (YES, NO)
II. Fair and equitable treatment of members/policy holders	
2	Have all funds collected from past informal insurance activities or unregistered products been transferred to a formalized entity or to a formalized product fund? (YES, NO) (N/A if not MBA or CIS)
III. The role of stakeholders	
3	Does the microinsurance entity provide information and education program for its MI clients highlighting the roles and responsibilities of both provider and clients? (YES, NO)
IV. Disclosure & transparency	
4	Does the microinsurance entity provide appropriate disclosure and transparent information on its obligations to MI clients/members? (YES, NO)
5	In case of bundled products, does the microinsurance entity require its partner MI agents (MFIs) to disclose to its clients/members the issuing microinsurance provider that is principally accountable to them? (YES, NO, N/A if no bundled products)
6	Is there appropriate disclosure on the salaries and remuneration of the board and the management to the stakeholders? (YES, NO) (N/A if not MBA or CIS)
7	Is there a disclosure to the members and IC of the pre-operating expenses that have been approved by the Board? (YES, NO) (N/A if not MBA or CIS or established more than one year)

8	Have the majority of the board attended at least 16 hours of relevant training on insurance operations and financial management? (YES, NO) (N/A if not MBA or CIS)

1.4 Understanding of Product by the Insured

Indicators in this category provide information on the degree of product understanding by the insured. If a product is well understood, the insured is more likely to buy it or to renew (retain the coverage) if it fits his/her needs, is affordable, and is perceived as good value. On the other hand, a product that is not well understood may be purchased on the basis of a different understanding and expectation and this will usually lead to dissatisfaction and problems later on.

1.4.1 Renewal ratio and retention ratio

The renewal ratio is a measure of the proportion of term products that are renewed when expired. The retention ratio measures the proportion of remaining active members/insureds from an initial group or the proportion remaining within a given period.

Both the renewal and retention ratios may be calculated for both mandatory and voluntary products. In the case of voluntary products, they are important indicators of the insured's perception of value. For mandatory products they can also indicate various things, depending on the context.

For Life and Non-life:

Calculate only the aggregate renewal ratio for voluntary term products, as follows:

Renewal Ratio (RR) for Voluntary Products =
$\sum$**(Actual renewals for voluntary MI products in the period * Exposure Weight) /**
$\sum$**(Potential renewals for voluntary MI products in the period * Exposure Weight)**

Where:
- *Potential renewals refers to those insureds that could have renewed during the year- i.e. they did not die, reach a termination age, or were disqualified based on some other regular underwriting condition.*
- *Exposure Weight of each product is its term in number of months / 12. For example, a three month term product has exposure weight of 3/12 while a two year product has an exposure weight of 24/12.*
- *Credit life and other products bundled with credit life are not considered as voluntary products if the borrower is required to buy the product as a condition of accessing a loan.*
- *Voluntary products are those for which the insureds may avail of or decline the option to purchase a product. A clear example of this is if, for example, a pawnshop client is alerted to the option of purchasing a microinsurance product she is qualified for without her decision affecting any other transaction with the pawnshop.*

For MBAs:

Calculate the member retention ratio only, as follows:

Member Retention Ratio (RR) =
Number of actual member retentions for the basic life product in the period / Number of potential member retentions for the basic life product in the period

For MBAs, <u>the retention ratio is not applicable to new members</u> therefore the following formula may also be used:

M_{y-1} = *Set of all existing members as of end of previous year (i.e. beginning of the current year)*
M_{y-ta} = *Set of existing members that reached termination age in the current year (do not include the new members that also reached termination age during the year)*
M_{y-d} = *Set of existing members that died in the current year (do not include the new members that also died during the year*
M_y = *Set of existing members that were still alive in the current year (do not include new members during the year)*

Member Retention Ratio (RR) $= M_y / (M_{y-1} - M_{y-ta} - M_{y-d})$.

For a micro-MBA, for example, a consistently high retention ratio does indicate that its members value their membership. This interpretation is a valid one even though membership is usually compulsory as a condition of accessing a loan from an affiliated microfinance organization since most borrowers have several options nowadays for satisfying their borrowing needs in the Philippine context.

The number of potential renewals or potential member retentions can be calculated using an application in the insurer's system, which, if it works properly, should exclude those insureds that have died or become disqualified for coverage due to age or for whatever other reason. These reasons should be beyond the control of the insured. The number of member retentions can likewise be automatically calculated, or MBAs may use the alternative formula provided. For both calculations, the databases must be kept current.

For a product with voluntary participation, the renewal ratio is one indicator that will point to whether or not a product is perceived as valuable. A low renewal ratio usually points to problems that need to be addressed.

1.4.2 Claims Rejection Ratio

The claims rejection ratio measures the proportion of claims that were filed but were not settled with benefit payment. This is one important indicator of the claimant's level of understanding of the product.

Claims Rejection Ratio (CRR)=
Number of Claims Rejected in the Period / Total Number of Claims Settled in the Period

Notes:
- *Rejected claims are claims that were either denied/resisted, or awarded an ex-gratia payment.*
- *Number of Claims Settled in the Period refers to the set of claims that was either denied/resisted, paid, or for which the beneficiary was awarded with an ex-gratia payment within the period, regardless of the incurred or reported date of the claim.*

If the claims rejection ratio is high, there is a problem in that the average insured does not understand the product well and thus potential beneficiaries are filing claims that should not be filed. Usually, products with many policy exclusions that confuse the insured will have a higher CRR. Other causes are low financial literacy, insufficient explanation of the product at the time of purchase, and a product which is difficult to understand.

1.5 Rate of Growth

The growth rate of any business is usually a general measure of success.

1.5.1 Rate of Growth of the MI Business

The rate of growth in microinsurance premium/contributions generally indicates if the microinsurance business is performing well or not although the conclusions that may be drawn depend on the context.

Life and Non-Life:

Rate of Growth of the MI business =
(Aggregate direct MI premium, current year / Aggregate direct MI premiums, previous year) – 1

Where:
- *Direct MI premium is the premium that the provider has underwritten and collected. It does not include assumed premium nor is it reduced for ceded premium.*

MBAs:

Rate of Growth of the MI business =
(Aggregate MI contribution and premium, current year / Aggregate MI contributions and premiums, previous year) – 1

Where:
- *Direct MI contribution and premium are those that the MBA has collected from its members and has not been reduced for ceded amounts.*

The amount of premium or contribution is a fundamental statistic that all providers track.

A high rate of microinsurance growth indicates success in terms of increasing market penetration or increasing coverage. Coverage is increased by selling new products to existing insureds or increasing their coverage volume. Depending on the circumstances, the minimum growth target rate should be the rate of inflation.

For management purposes, the provider could devise and track additional indicators to determine the source of growth.

1.6 Outreach

Outreach indicators measure the extent to which microinsurance penetrates the target market.

1.6.1 Growth in outreach

The growth in number of insureds, together with the actual number of insureds, is indicative of microinsurance outreach.

Growth in Outreach =
(Number of Insureds, Current Year / Number of Insureds, Previous Year) – 1

Where:
- *Insureds consist of both principal insureds and their dependents.*

Outreach includes both principal insureds and their dependents. The provider should have a complete database of principal insureds (those with policy or certificate of insurance) as well as their insured dependents.

Care should be taken to count an insured person only once if he/she is covered by more than one microinsurance product.

Growth in outreach of a valuable product introduced in a relatively new market should be fairly "high", all other things being equal. As the market becomes close to being saturated, growth will slow down but can still remain positive due to the expansion of the market (e.g. growth in the market segment population).

2. Data

The data and information submitted to the Insurance Commission using the Annual Statements for life insurance companies, non-life insurance companies, and mutual benefit associations shall be used in computing the Performance Indicators and Standards for Microinsurance in the Philippines.

3. Performance Standards, Scoring, and Weights

The standards and scores were derived by analyzing industry data and incorporating feedback of stakeholders.

Indicator	Formula	Standard	Max Score	Resulting Ratio	Points
1.1 SOLVENCY & STABILITY			**30**		
1.1.1 Capital Adequacy Ratio (CAR) or RBC ratio *(depends on what is being used)*	Life and Non-Life only: Total Available Capital / RBC Capital Requirement The original formula: Networth / RBC Capital Requirement	CAR or RBC ≥ minimum required ratio	20	a. R ≥ MRR b. MRRwl < R < MRR c. R ≤ MRRwl *Where:* • *R = CAR or RBC* • *MRR = minimum required ratio* • *MRRwl = minimum required ratio with IC intervention*	a. 20 b. 10 c. 0
1.1.2 Solvency Ratio (SR)	MBAs only: (Admitted Assets – Required Guarantee Fund) / Total Liabilities	SR >110%	20	a. SR ≥ 110% b. 100% < SR < 110% c. SR ≤ 100%	a. 20 b. 10 c. 0

Indicator	Formula	Standard	Max Score	Resulting Ratio	Points
1.1.3 Liquidity Ratio (LiqR)	**Life and Non-Life Only:** Current Assets / Current Liabilities **MBAs only:** Current assets / (Factor * Individual Equity Value + other current liabilities)	100% ≤ LiqR < 120%	5	a. LiqR ≥ 500% b. 400% ≤ LiqR < 500% c. 300% ≤ LiqR < 400% d. 200% ≤ LiqR < 300% e. 120% ≤ LiqR < 200% f. 100% ≤ LiqR < 120% g. 90% ≤ LiqR < 100% h. 80% ≤ LiqR < 90% i. LiqR < 80%	a. 0 b. 1 c. 2 d. 3 e. 4 f. 5 g. 3 h. 1 i. 0
1.1.4 Leverage Ratio (LevR)	**Life and Non-Life:** Total Liabilities / Networth **MBAs:** Total Liabilities / Fund Balance	0% ≤ LevR ≤ 400%	5	a. 500% < LevR ≤ 600% b. 400% < LevR ≤ 500% c. 0% < LevR ≤ 400% d. Other values	a. 1 b. 3 c. 5 d. 0
1.2 EFFICIENCY			**20**		
1.2.1 Underwriting Costs Ratio (UWCR)	**Life and Non-Life:** Underwriting Costs / Earned Premium Note: The underwriting cost for MBAs, if any, is included in their Operating Expense Ratio	UWCR ≤ 30%	5	a. UWCR > 50% b. 45% < UWCR ≤ 50% c. 40% < UWCR ≤ 45% d. 35% < UWCR ≤ 40% e. 30% < UWCR ≤ 35% f. UWCR ≤ 30%	a. 0 b. 1 c. 2 d. 3 e. 4 f. 5
1.2.2 Operating Expense Ratio (OPER)	**Life and Non-Life:** Operating Expenses / Earned premium	OPER ≤ 20%	5	a. OPER > 40% b. 35% < OPER ≤ 40% c. 30% < OPER ≤ 35% d. 25% < OPER ≤ 30% e. 20% < OPER ≤ 25% f. OPER ≤ 20%	a. 0 b. 1 c. 2 d. 3 e. 4 f. 5

Indicator	Formula	Standard	Max Score	Resulting Ratio	Points
	MBA Basic: Operating Expenses / Earned Contributions	OPER ≤ 40% NOTE: 40% is the maximum allowed by law	5 if MBA has optional products, otherwise 10	a. OPER > 40% b. 35% < OPER ≤ 40% c. 30% < OPER ≤ 35% d. OPER ≤ 30%	a. 0 b. 1.5 or 3 c. 3.5 or 7 d. 5 or 10
	MBA Optional: Operating Expenses / Earned Premium	OPER ≤ 40%	5	a. OPER > 55% b. 50% < OPER ≤ 55% c. 45% < OPER ≤ 50% d. 40% < OPER ≤ 45% e. OPER ≤ 40%	a. 0 b. 1 c. 2 d. 3.5 e. 5
1.2.3 Incurred Claims Ratio (ICR)	Life and Non-Life: Incurred claims / Earned premium	40% < ICR ≤ 50%	6	a. ICR > 60% b. 55% < ICR ≤ 60% c. 50% < ICR ≤ 55% d. 40% < ICR ≤ 50% e. 35% ≤ ICR ≤ 40% f. 30% ≤ ICR ≤ 35% g. 25% ≤ ICR ≤ 30% h. ICR < 25%	a. 0 b. 2 c. 5 d. 6 e. 5 f. 3 g. 1 h. 0
	MBAs: Incurred claims / (Earned Contributions + Earned Premium)	45% < ICR ≤ 65%	6	a. ICR > 80% b. 75% < ICR ≤ 80% c. 70% < ICR ≤ 75% d. 65% < ICR ≤ 70% e. 45% < ICR ≤ 65% f. 40% < ICR ≤ 45% g. 35% < ICR ≤ 40% h. 30% < ICR ≤ 35% i. 30% < ICR	a. 0 b. 2 c. 4 d. 5 e. 6 f. 5 g. 4 h. 2 i. 0
1.2.4 On-time Claims Settlement Ratio (CSR)	Number of claims filed in the period and settled within 10 days / Number of claims filed in the period	100%	4	CSR = 100% CSR < 100%	4 0

Indicator	Formula	Standard	Max Score	Resulting Ratio	Points
1.3 GOVERNANCE			**30**		
ACGS (use latest available)			**20**		

1.3.1 ACGS	ACGS standard	20	ACGS score in % X 20, rounded to the nearest integer unit	
1.3.2 Additional Governance Questions For Life and Non-Life: Governance questions #1, #3, #4, #5 in section 1.3	Life and Non-Life: YES to #1, #3, #4 YES or N/A to #5	10	a. 4 YES or N/A b. 3 YES or N/A c. 2 YES or N/A d. 0 or 1 YES or N/A	a. 10 b. 7 c. 3 d. 0
For MBAs and Coops: All governance questions in section 1.3	MBAs, Coops: YES to #1, #3, #4, #6, #7, #8 YES or N/A to #2, #5	10	a. 8 YES or N/A b. 6 or 7 YES or N/A c. 4 or 5 YES or N/A d. 0 to 3 YES or N/A	a. 10 b. 7 c. 3 d. 0
1.4 UNDERSTANDING OF THE PRODUCT BY THE INSURED		**10**		
1.4.1 Renewal Ratio (RR)	Life, non-life: Optional/voluntary products only Number of renewals for voluntary MI products in the period / Number of potential renewals for voluntary MI products in the period	RR > 75%	7	a. RR > 75% b. 70% < RR ≤ 75% c. 65% < RR ≤ 70% d. 60% < RR ≤ 65% e. 50% < RR ≤ 60% f. RR < 50%	a. 7 b. 5 c. 4 d. 3 e. 1 f. 0
1.4.1 Member Retention Ratio (RR)	For MBAs memberships: Number of member retentions for the basic life product in the period / Number of potential member retentions for the basic life product in the period	RR > 90%	7	a. RR > 90% b. 85% < RR ≤ 90% c. 80% < RR ≤ 85% d. 75% < RR ≤ 80% e. RR < 75%	a. 7 b. 6 c. 4 d. 1 e. 0
1.4.2 Claims Rejection Ratio (CRR)	Number of claims rejected in the period / total number of claims settled in the period	CRR ≤ 3%	3	a. CRR ≤ 3% b. 3% < CRR ≤ 5% c. CRR > 5%	a. 3 b. 1 c. 0

1.5 RATE OF GROWTH			5		
1.5.1 Rate of Growth of the MI Business (RG)	Entities other than MBAs: (Amount of MI premiums received, current year / Amount of MI premiums, previous year) – 1	RG ≥ 10%	5	a. RG ≥ 10% b. 7% < RG < 10% c. 5% < RG ≤ 7% d. 2% < RG ≤ 5% e. 0% < RG ≤ 2% f. RG ≤ 0%	a. 5 b. 4 c. 3 d. 2 e. 1 f. 0
	MBAs: (Aggregate MI contributions and premiums, current year / Aggregate MI contributions and premiums, previous year) – 1				
1.6 OUTREACH			5		
1.6.1 Growth in Outreach (GO)	(Number of insureds current year / Number of insureds previous year) – 1	GO ≥ 5%	5	a. RG ≥ 5% b. 4% < RG < 5% c. 3% < RG ≤ 4% d. 2% < RG ≤ 3% e. 0% < RG ≤ 2% f. RG ≤ 0%	a. 5 b. 4 c. 3 d. 2 e. 1 f. 0