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Date:	14 April 2023

Advisory No. 2023 - _____

TO : **ALL INSURANCE, PROFESSIONAL REINSURANCE COMPANIES AND MUTUAL BENEFIT ASSOCIATIONS (MBAS) AUTHORIZED TO DO BUSINESS IN THE PHILIPPINES**

SUBJECT : **REMINDERS ON THE TOP TEN (10) ERRORS COMMONLY COMMITTED IN FILLING OUT THE ANNUAL STATEMENT TEMPLATE**

Pursuant to Sections 229 and 413 of Republic Act (RA) No. 10607, otherwise known as the "Amended Insurance Code," all insurance companies, professional reinsurance companies and mutual benefit associations authorized to do business in the Philippines are directed to submit annually, on or before the thirtieth (30^{th}) day of April of each year, an Annual Statement ("AS") showing the exact condition of its affairs on the preceding thirty-first (31^{st}) day of December.

Based on the previous examinations, regulated entities commonly commit errors and mistakes in filling out the AS Template prescribed by the Commission. To avoid the imposition of penalties resulting from wrong data being entered in the AS, the Commission issues this Advisory enumerating the common mistakes committed by regulated entities.

1. PROVISION ON GENERALLY NON-ADMITTED ASSETS

Section 203 of the Amended Insurance Code provides that the following assets shall in no case be allowed as admitted assets in any determination of its financial condition:

a. Goodwill, trade names, and other like intangible assets;
b. Prepaid or deferred charges for expenses and commissions paid by such insurance company;
c. Advances to officers (other than policy loans), which are not adequately secured and which are not previously authorized by the Commissioner, as well as advances to employees, agents, and other persons on mere personal security;
d. Shares of stock of such insurance company, owned by it, or any equity therein as well as loans secured thereby, or any proportionate interest in such shares of stock through the ownership by such insurance company of an interest in another corporation or business unit;
e. Furniture, furnishing, fixtures, safes, equipment, library, stationery, literature, and supplies;

f. Items of bank credits representing checks, drafts or notes returned unpaid after the date of statement;
g. The amount, if any, by which the aggregate value of investments as carried in the ledger assets of such insurance company exceeds the aggregate value thereof as determined in accordance with the provisions of this Code and/or the rules of the Commissioner; and
h. Other assets determined to be non-admitted assets by the Commissioner.

There have been instances in the past wherein regulated entities would request that the above-enumerated assets be considered as admitted assets for the purpose of determining their respective Net Worth. Pursuant to Section 203 of the Amended Insurance Code, the Commission considers the above-enumerated assets as non-admitted assets.

2. INVESTMENT LIMITATIONS

In the determination of admitted investments, reference should be made to the following provisions of the Amended Insurance Code and pertinent circular letters ("CLs") prescribing investment limitations. A matrix on the investment limitations is attached in this Advisory as **ANNEX "A."** Regulated entities are also advised to present pertinent supporting documents evidencing the Commission's approval of the investment, if necessary. The Commission notes that there are allowable investments that do not require prior approval as prescribed in CL No. 2022-23.

3. IMPROPER FILLING OUT OF DATA

Regulated entities frequently neglect to properly fill out data and information in the AS, which includes both numerical and non-numerical errors. Numerical errors, which include slide errors, transposition errors, and other similar mistakes, materially affect the balances of accounts in the AS. While non-numerical errors do not relate to any mathematical error, they nevertheless materially affect the presentation of data and information in the AS.

4. INCONSISTENT PRESENTATION OF DATA IN THE INVENTORY AND AS TEMPLATES

The arrangement of data in the inventory worksheet should always parallel with how the data in the AS are presented and arranged. If data are arranged alphabetically in the inventory template, then the same should be followed in the AS template. Examiners usually audit voluminous transactions, and any inconsistency in the arrangement and presentation of data would result to inefficiencies.

5. INCONSISTENT PRESENTATION OF DATA IN THE AS AND AFS

While it is acknowledged that certain accounts in the AS and AFS cannot be presented similarly because of their varying purposes, it must, however, be strictly observed that certain accounts be presented indifferently.

6. INCONSISTENT METHODS OF VALUATION

The methods of valuation used in presenting the financial position and condition of the companies and associations in the AS should be consistent with the methods used in the AFS and other forms of financial statements. A common depiction of this is when an investment account is presented and valued in the AFS using cost method whereas the same is presented and valued in the AS using equity method.

Moreover, generally accepted accounting principles lay-out certain rules on the valuation and presentation of assets, such as but not limited to, financial assets and real estate properties. These generally accepted accounting principles require regulated entities to classify their assets based on the actual use of asset and/or business model. Entities should not violate these principles in all their financial reports, i.e., classification and valuation of a real estate property under either "Property Plant or Equipment" or "Investment Property" should be consistent in the AFS and AS, and classification and valuation of financial assets should also be consistent.

7. NON-FILLING OUT OF SCHEDULES OR OMISSION OF MATERIAL INFORMATION IN SCHEDULES

Oftentimes, AS preparers fail to fill out an entire sub-schedule of an account in the AS. All Input data entry field in the AS must be completely filled out, and no pertinent cell should be left unfilled. In the event that requirements do not apply, a "Not applicable", "NONE" or "NIL" phrase should be indicated in the schedules and input fields. While the total balances presented in the main schedule are not affected, the breakdowns of the balances are also important as provides examiners the audit trail, holistic view, and better understanding of what comprises the main account.

8. DISCREPANCIES IN BALANCES

Usually, total balances of accounts in the Schedules of Assets, Liabilities, and Net Worth/Equity/Fund Balance do not tie up with the balances in the respective exhibits and sub-schedules of the accounts. Generally, prudence dictates that a lower amount would be considered as admitted assets. As a result, it adversely affects the total admitted assets of the companies and associations.

9. IMPROPER AND INCOMPLETE REFERENCING

Improper or incomplete referencing of supporting documents makes it difficult for an examiner to determine which item of asset account is being supported by a specific supporting document. A common example is the wrong indexing of official receipts and sales invoice, which support items of Information Technology equipment.

10. OMMISSION OF MATERIAL INFORMATION IN SCHEDULES

Regulated entities must be prudent in the management of their assets. They are required to invest only in registered and solvent enterprises. As such, omission of material data such as the name of banks and reinsurance companies, the license number or name of resident agent of reinsurance companies and the name of the stock company should not be omitted in the schedules submitted. Moreover, some entities do not indicate the nature or specific name of accounts of material financial statement balances, such as miscellaneous or other assets. Such assets will be treated as generally non-admitted assets as assets of doubtful character.

For the regulated entities' information.

REYNALDO A. REGALADO
Insurance Commissioner

ANNEX A

TYPE OF INVESTMENT	INDUSTRY TYPE	INVESTMENT LIMITS	SECTION
Real properties which serve as a Company's main place of business and/or branch offices	Life Non-Life MBA	20% of the Company's Net Worth based on its latest Financial Statement approved by the Commissioner	206 (b) (1)
Bonds, debentures or other instruments of indebtedness of any solvent corporation or institution created or existing under the laws of the Philippines	Life MBA	25% of the Company's Total Admitted Assets based on the preceding year-end	206 (b) (4)
Preferred or guaranteed stocks of any solvent corporation or institution created or existing under the laws of the Philippines	Life MBA	10% of the Company's Total Admitted Assets based on the preceding year-end	206 (b) (5)
Common stocks of any solvent corporation or institution created or existing under the laws of the Philippines	Life MBA	10% of the Company's Total Admitted Assets based on the preceding year-end	206 (b) (6)
Securities issued by a registered enterprise, as this term is defined in Executive Order No. 226, otherwise known as the Omnibus Investments Code of 1987, as amended	Non-Life	20% of the Company's Net Worth based on its latest Financial Statement approved by the Commissioner	206 (b) (7)
Land, leased land, building for housing projects	Life MBA	25% of the Company's Total Admitted Assets based on the preceding year-end	208 (a)
Land, building other than property for the production of income	Life MBA	25% of the Company's Total Admitted Assets based on the preceding year-end	208 (b)
Real Estate Investment Trust	Life MBA	10% of the Company's Total Admitted Assets based on the preceding year-end	CL No. 2019-27
Real Estate Investment Trust	Non-Life	20% of the Company's Net Worth based on its latest Financial Statement approved by the Commissioner	CL No. 2019-27
Investments in Mutual funds and Unit Investment Trust Funds	Life MBA	10% of the Company's Total Admitted Assets based on the preceding year-end	CL No. 2014-50
Investments in Mutual funds and Unit Investment Trust Funds	Non-life	20% of the Company's Net Worth based on its latest Financial Statement approved by the Commissioner	CL No. 2014-50