



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



Advisory No.:	RS-2023-006
Classification:	Regulatory and Supervisory Advisory
Date:	13 March 2023

ADVISORY

TO : All Broker-Regulated Companies and their External Auditors

SUBJECT : Frequently Asked Questions and Clarifications on IC Circular Letter (CL) No. 2021-65

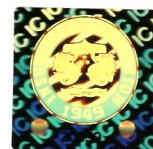
In relation to the implementation of IC CL No. 2021-65 or the "Revised On-Site Examination and Off-site Verification Rules and Procedures" starting May 2023 submissions, attached are the frequently asked questions and clarifications during the IC's training sessions to assist the preparers of the documentary requirements and/or financial statements and their external auditors in the understanding of and compliance with the requirements of the revised CL.

Should you have any concerns regarding this matter, you may contact the IC Brokers and Insurance Pools Division at BrokersDiv@insurance.gov.ph or 8523-8461 local 132.

Please be guided accordingly. Thank you.

A handwritten signature in blue ink, appearing to be "Dennis B. Funa".

DENNIS B. FUNA
Insurance Commissioner



**FREQUENTLY ASKED QUESTIONS (FAQs)
ON IC CIRCULAR LETTER (CL) NO. 2021-65**

A. Fiduciary Ratio Requirement

1. If the Company has an installment arrangement with its valuable client because premium is material, but installment period is beyond 90 days, can we age the premium balance as still within 90 days?

Clarification:

The aging of premium receivables should be in accordance with the Company's accounting policy. In terms of compliance with the fiduciary ratio requirement, the premium receivable (gross) per Audited Financial Statement (AFS) will be considered.

2. We have a maintaining balance in our Client's Money account amounting to Php 1.25 Million. Do we just need to provide a disclosure and explanation?

Clarification:

No need to provide a disclosure and explanation on maintaining balance. Only the client's money balance as of year-end should be disclosed.

3. What will be the resolution for non-compliance with fiduciary ratio requirement due to differences between the premium-related balances in the Statement of Business Operations (SBO) and AFS?

Clarification:

Any reconciling items that may differ from the premium-related accounts, as well as commission receivables and revenues per AFS and SBO shall be included in the SBO reconciliation tab in the Financial Information Form.

The Fiduciary ratio computation will pick up the balances per Audited Trial Balance. Hence, the premium-related accounts should be presented at GROSS of commissions, allowances for impairment, taxes, fees, and other charges (Section 3[d] of IC CL No 2021-65).

4. On the fiduciary account monitoring, what is the acceptable frequency (weekly, monthly etc.) for transfer of brokerage commission portion to non-fiduciary account?

Clarification:

No frequency required per revised CL, if commission-related portion of the premium receivable balances are accounted for at year-end.

5. How is the accounting policy of offsetting fiduciary accounts affect the fiduciary ratio requirement?

Clarification:

While the Company has an option to present the net balances of its fiduciary accounts in its AFS, it is expected that these accounts will be presented in the Audited Trial Balance tabs on the Financial Information Form.

6. How does the automated fiduciary ratio computation in Prudential Requirements tab of the Financial Information Form affect our compliance if the Company is in direct remittance agreement?

Clarification:

The fiduciary ratio field in the Prudential Requirements tab automatically captures the fiduciary accounts in the Statement of Financial Position tab. For companies with a direct remittance agreement, the fiduciary ratio requirement will not be applicable. Hence, any figures in the fiduciary ratio field will be disregarded.

B. Net Worth Requirement

1. How is the issuance of IC CL No. 2023-02 or the Amended Guidelines on the Licensing Requirements of Brokers Engaged in Health Maintenance Organization (HMO) Business affect the net worth requirement for 2022 AFS?

Clarification:

There will be no effect on the required net worth level for 2022 AFS, until the Commission issues amendments to IC CL No. 2018-52, if any.

2. What will be the net worth requirement for companies who transitioned from insurance or reinsurance broker to insurance AND reinsurance broker in 2022 and onwards?

Clarification:

The companies transitioning from insurance or reinsurance broker to insurance AND reinsurance broker in 2022 onwards will be classified as new entrant with net worth requirement of Php50 Million.

C. Documentary and Disclosure Requirements

1. How do we disclose the minimum information?

Clarification:

Two options in disclosing the minimum information:

- Included as part of notes to AFS
- Supplemental Report

See Annexes A and B for the suggested templates of audit opinion and disclosure of minimum information

Non-inclusion of minimum information will result in the non-acceptance of AFS submission and, consequently, penalties for every day of delay in accordance with IC CL No. 2014-15.

2. We can't find Annex A for the list of documentary requirements. Is the list of documentary requirements still the same as those listed in Annex A attached to CL No. 2020-23?

Clarification:

Please see Form B for the Revised Checklist of Requirements

D. Others

1. *On separation of client's money.* How would the bank certify the amount per bank statement if the account is used for client's payment, payroll and payment to government agencies? What is the content of the certification (total balance only as of a certain date? or based on year-end date?)

Clarification:

Since it would be impractical to maintain a separate bank account solely for client's money, the Company should maintain a monitoring file to ensure the identification and segregation of client's money. No separate certification needed as this is part of the minimum information on disclosure requirements (see updated Checklist of Requirements).

2. *On Broker's Classification.* Under Section 6: Brokers Classification, is there any specific requirement/rubric on how we can be classified in the ranking (i.e., possible solvency problems within the next 5 years)?

Clarification:

Broker's classification is based on, but not limited to, the following elements:

- *net worth and fiduciary ratio requirements*
- *liquidity and solvency*
- *licensing requirements*
- *market conduct*
- *timeliness of compliance*
- *external audit*

While the Commission's Internal Metric System will not be disclosed in the industry, the Company may request via letter to the Commissioner to obtain a high-level detail of classification.

ANNEX A

Disclosure of Minimum Information Using Option A:

Supplemental Opinion*

REPORT OF INDEPENDENT AUDITOR TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING WITH THE INSURANCE COMMISSION

The Board of Directors and Stockholders

Company Name

Company Address

We have audited, in accordance with the Philippine Standards on Auditing, the financial statements of (the Company) as at and for the year ended (Date), on which we have rendered our report dated (Audit Report Date). Our audit was made for the purpose of forming an opinion on the financial statements of the Company taken as a whole. The minimum information presented in Notes ___ is the responsibility of the Company's management, and is presented for purposes of complying with the Insurance Commission Circular Letter No. 2021-65 and 69 and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the Company's financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Name and Signature of External Auditor / Auditing Firm

*supplemental opinion can be presented either (1) in the same page of audit opinion or (2) in a separate page

Disclosure Requirements

Client's Money

If segregated, Restricted Cash (Other Assets)

As of 31 December 20XX and 20XX, the Company's client's money amounted to [insert amount], respectively. The Company's client's money is placed in [state the bank account reference/restricted account reference].

If mingled with Cash in Bank balance, Cash and Cash Equivalents

As at 31 December 20XX, the Company's client's money amounts to [insert amount]. The Company's client's money is included in the Cash in Bank balance in AFS. The Company's [personnel/department] maintains a separate file to monitor the movement of client's money account.

Net Worth Compliance

Under Capital Management Note

If compliant:

"The Company is required to comply with the minimum net worth requirement for a/an [broker type] amounting to [net worth requirement] per IC CL No. 2018-52.

As of 31 December 20XX, the Company's net worth is compliant with the minimum net worth requirement set forth by the IC."

If not compliant:

"The Company is required to comply with the minimum net worth requirement for a/an [broker type] amounting to [net worth requirement] per IC CL No. 2018-52.

As of 31 December 20XX, the Company's net worth is deficient by [insert amount of deficiency]/ failed to comply with the minimum net worth requirement set forth by the IC.

[Insert a narrative on Company's management efforts/plans/commitments to address the non-compliance, and indicate the date or proof that the action was discussed to the Board]

Fiduciary Ratio

Under Capital Management Note

If compliant:

The Company is required to comply with the fiduciary ratio requirement per IC CL No. 2021-65. The fiduciary ratio is a measure to assess the Company's conduct of handling premiums from the policyholder (if insurance broker) or ceding company (if reinsurance broker), given that a broker is expected to be acting on a fiduciary capacity.

The fiduciary ratio is computed by dividing the total fiduciary assets (either cash or receivables being held by an insurance and/or reinsurance broker, over the total fiduciary liabilities). The fiduciary ratio to be maintained shall be 1:1. Amounts used are gross of the commissions, allowances for impairment, taxes, fees and other charges. The fiduciary assets and liabilities used are in accordance with IC CL No. 2021-69 or the Revised Standard Chart of Accounts for Insurance and/or Reinsurance Brokers.

Fiduciary Transaction Model

The Company uses a [insert transaction model]. This is a type of transaction wherein [insert the definition based on Section 3 (d) of IC CL No. 2021-65].

Fiduciary Ratio Computation

As of 31 December 20XX, the Company's fiduciary ratio is computed as follows:

[insert computation]

Based on the computation, the Company is compliant with the requirement per IC CL No. 2021-65

If not compliant:

The Company is required to comply with the fiduciary ratio requirement per IC CL No. 2021-65. The fiduciary ratio is a measure to assess the Company's conduct of handling premiums from the policyholder (if insurance broker) or ceding company (if reinsurance broker), given that a broker is expected to be acting on a fiduciary capacity.

The fiduciary ratio is computed by dividing the total fiduciary assets (either cash or receivables being held by an insurance and/or reinsurance broker, over the total fiduciary liabilities). The fiduciary ratio to be maintained shall be 1:1. Amounts used are gross of the commissions, allowances for impairment, taxes, fees and other charges. The fiduciary assets and liabilities used are in accordance with IC CL No. 2021-69 or the Revised Standard Chart of Accounts for Insurance and/or Reinsurance Brokers.

Fiduciary Transaction Model

The Company uses a [insert transaction model]. This is a type of transaction wherein [insert the definition based on Section 3 (d) of IC CL No. 2021-65].

Fiduciary Ratio Computation

As of 31 December 20XX, the Company's fiduciary ratio is computed as follows:

[insert computation]

Based on the computation, the Company is not compliant with the requirement per IC CL No. 2021-65

[Insert a narrative on Company's management efforts/plans/commitments to address the non-compliance, and indicate the date or proof that the action was discussed to the Board]

Offsetting Arrangements

Under Offsetting Arrangements Note

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

ANNEX B

Disclosure of Minimum Information Using Option B:

*Supplemental Opinion**

REPORT OF INDEPENDENT AUDITOR TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING WITH THE INSURANCE COMMISSION

The Board of Directors and Stockholders

Company Name

Company Address

We have audited, in accordance with the Philippine Standards on Auditing, the financial statements of (the Company) as at and for the year ended (Date), on which we have rendered our report dated (Audit Report Date). Our audit was made for the purpose of forming an opinion on the financial statements of the Company taken as a whole. The minimum information attached is the responsibility of the Company's management, and is presented for purposes of complying with the Insurance Commission Circular Letter No. 2021-65 and 69 and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the Company's financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Name and Signature of External Auditor / Auditing Firm

Disclosure Requirements

Attachment to the Supplemental Opinion

Item 1. Client's Money

If segregated

As of 31 December 20XX and 20XX, the Company's client's money amounted to [insert amount], respectively. The Company's client's money is placed in [state the bank account reference/restricted account reference].

If mingled with Cash in Bank balance

As at 31 December 20XX, the Company's client's money amounts to [insert amount]. The Company's client's money is included in the Cash in Bank balance in AFS. The Company's [personnel/department] maintains a separate file to monitor the movement of client's money account.

Item 2. Net Worth Compliance

If compliant:

"The Company is required to comply with the minimum net worth requirement for a/an [broker type] amounting to [net worth requirement] per IC CL No. 2018-52.

As of 31 December 20XX, the Company's net worth is compliant with the minimum net worth requirement set forth by the IC."

If not compliant:

"The Company is required to comply with the minimum net worth requirement for a/an [broker type] amounting to [net worth requirement] per IC CL No. 2018-52.

As of 31 December 20XX, the Company's net worth is deficient by [insert amount of deficiency]/ failed to comply with the minimum net worth requirement set forth by the IC.

[Insert a narrative on Company's management efforts/plans/commitments to address the non-compliance, and indicate the date or proof that the action was discussed to the Board]

Item 3. Fiduciary Ratio

If compliant:

The Company is required to comply with the fiduciary ratio requirement per IC CL No. 2021-65. The fiduciary ratio is a measure to assess the Company's conduct of handling premiums from the policyholder (if insurance broker) or ceding company (if reinsurance broker), given that a broker is expected to be acting on a fiduciary capacity.

The fiduciary ratio is computed by dividing the total fiduciary assets (either cash or receivables being held by an insurance and/or reinsurance broker, over the total fiduciary liabilities). The fiduciary ratio to be maintained shall be 1:1. Amounts used are gross of the commissions, allowances for impairment, taxes, fees and other charges. The fiduciary assets and liabilities used are in accordance with IC CL No. 2021-69 or the Revised Standard Chart of Accounts for Insurance and/or Reinsurance Brokers.

Fiduciary Transaction Model

The Company uses a [insert transaction model]. This is a type of transaction wherein [insert the definition based on Section 3 (d) of IC CL No. 2021-65].

Fiduciary Ratio Computation

As of 31 December 20XX, the Company's fiduciary ratio is computed as follows:

[insert computation]

Based on the computation, the Company is compliant with the requirement per IC CL No. 2021-65.

If not compliant:

The Company is required to comply with the fiduciary ratio requirement per IC CL No. 2021-65. The fiduciary ratio is a measure to assess the Company's conduct of handling premiums from the policyholder (if insurance broker) or ceding company (if reinsurance broker), given that a broker is expected to be acting on a fiduciary capacity.

The fiduciary ratio is computed by dividing the total fiduciary assets (either cash or receivables being held by an insurance and/or reinsurance broker, over the total fiduciary liabilities). The fiduciary ratio to be maintained shall be 1:1. Amounts used are gross of the commissions, allowances for impairment, taxes, fees and other charges. The fiduciary assets and liabilities used are in accordance with IC CL No. 2021-69 or the Revised Standard Chart of Accounts for Insurance and/or Reinsurance Brokers.

Fiduciary Transaction Model

The Company uses a [insert transaction model]. This is a type of transaction wherein [insert the definition based on Section 3 (d) of IC CL No. 2021-65].

Fiduciary Ratio Computation

As of 31 December 20XX, the Company's fiduciary ratio is computed as follows:

[insert computation]

Based on the computation, the Company is not compliant with the requirement per IC CL No. 2021-65

[Insert a narrative on Company's management efforts/plans/commitments to address the non-compliance, and indicate the date or proof that the action was discussed to the Board]

Item 4. Offsetting Arrangements

Financial assets and liabilities are offset, and the net amount is reported in the statement of financial position, if and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.