



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

Circular Letter No.:	2021-65
Date:	5 November 2021
Supersedes:	CL No. 09-2009; CL No. 2021-23; CL No. 2021-33

CIRCULAR LETTER

**TO : ALL INSURANCE AND REINSURANCE BROKERS
AUTHORIZED TO DO BUSINESS IN THE PHILIPPINES AND
IC-ACCREDITED EXTERNAL AUDITORS**

**SUBJECT : REVISED ON-SITE EXAMINATION/OFF-SITE VERIFICATION
RULES AND PROCEDURES**

WHEREAS, the Insurance Commission (IC) issued Circular Letter (CL) No. 2018-52 dated 19 October 2018 on the Guidelines on the Licensing Requirements of Insurance and/or Reinsurance Brokers, which superseded previous issuances such as Insurance Memorandum Circular (IMC) No. 2-85, IMC 1-2006, and CL No. 2006-12;

WHEREAS, Section 3 of CL No. 2018-52 requires license insurance and/or reinsurance brokers to maintain capitalization and net worth requirements without prejudice to the adoption of the risk-based capital approach and other internationally accepted forms of capital framework;

WHEREAS, Section 314 of the Amended Insurance Code provides *“that an application for the issuance or renewal of a license to act as an insurance agent or insurance broker may be refused, or such license, if already issued or renewed, shall be suspended or revoked if the Commissioner finds that the applicant for, or holder of, such license: ...has been guilty of fraudulent or dishonest practices; or has misappropriated or converted to his own use or illegally withheld moneys required to be held in a fiduciary capacity”*;

WHEREAS, the insurance/reinsurance broking business is an integral and important part of the insurance business cycle;

WHEREAS, insurance/reinsurance brokers handle funds and collect and remit premiums on behalf of the customers/insured and insurance companies;

WHEREAS, one of the findings noted in the 2019 Financial Sector Assessment Program (FSAP) conducted by the World Bank is that the current regulations of insurance and/or reinsurance brokers need to be reviewed and revised in compliance with globally accepted regulatory standards;

WHEREAS, Insurance Core Principle (ICP) 18 on Intermediaries states that where appropriate, the insurance supervisor shall apply and observe supervisory measures on licensed insurance intermediaries;

WHEREAS, ICP 18 on Intermediaries further states that the supervisor shall require an insurance intermediary who handles client monies to have safeguards in place to protect these funds;

WHEREAS, under Section 437(d) of the Amended Insurance Code, the Insurance Commissioner shall have the powers and authority to prepare, approve, amend or repeal rules, regulations and orders, and issue opinions and provide guidance and supervise compliance with such rules, regulations and orders;

NOW, THEREFORE, pursuant to the authority vested to the Insurance Commissioner under Section 437(d) of the Amended Insurance Code, the On-site Examination/Off-site Verification Rules and Procedures for Insurance and/or Reinsurance Brokers and IC-accredited External Auditors is hereby revised:

SECTION 1: COVERAGE

This CL covers the revised rules and procedures on the determination of net worth, fiduciary ratio, on-site and off-site examination of insurance and/or reinsurance brokers with valid Certificate of Authority from the IC.

This CL also covers the schedules required to be filed by the insurance and/or reinsurance brokers with the IC, and additional disclosures required to be made in the AFS, as specified in Annex A.

SECTION 2: OBJECTIVES

The objectives of this CL are:

- 2.1. To complement the enforcement of Section 3 of CL No. 2018-52, "Guidelines on the Licensing Requirements of the Insurance and/or Reinsurance Brokers";
- 2.2. To exercise the authority and power of the IC to refuse renewal, suspend or revoke the license of any insurance and/or reinsurance brokers in accordance with the Section 314 of the Amended Insurance Code; and
- 2.3. To provide guidance on the preparer and IC-accredited external auditor on the assets or liabilities to be recognized for the purpose of prudential reporting to the IC.

SECTION 3: PRUDENTIAL FINANCIAL REQUIREMENTS

3.1. All insurance and/or reinsurance brokers with valid Certificate of Authority from the IC shall, at all times, comply with the following:

- a. Net Worth Requirement;
- b. Surety Bond and Errors and Omissions policy;
- c. Keeping separate Clients' Money Account;
- d. Fiduciary Ratio Requirement; and
- e. Keeping proper books of accounts.

a. Net Worth Requirement

As provided under Section 3 of CL No. 2018-52, licensed insurance and/or reinsurance brokers are required to maintain the following net worth requirements¹:

Type of License		Existing Broker <i>(license issued before CL No. 2018-52 dated 19 October 2018)</i>	New Entrant <i>(license issued after CL No. 2018-52 dated 19 October 2018)</i>
Insurance	OR	Php 10 million	Php 20 million
Reinsurance			
Insurance	AND	Php 25 million	Php 50 million
Reinsurance			

The balances as reported in the Audited Financial Statements (AFS), as audited by an IC-accredited external auditor, shall be the basis for the net worth computation, provided that, the other prudential requirements and disclosures are complied with (i.e. clients' money/fiduciary accounts).

b. Surety Bond and Errors and Omissions Policy

The requirements on the submission of surety bond and errors and omission policy shall be in accordance with the provisions of Sections 6 and 7 of IC CL No. 2018-52 *and/or equivalent future issuances*.

c. Keeping separate Clients' Money Account

Section 315 of the Amended Insurance Code requires every license insurance and/or reinsurance broker to ensure faithful performance of its fiduciary responsibilities on behalf of its clients and partner insurance and/or reinsurance companies. Thus, an insurance and/or reinsurance broker is required to keep client monies in a client account separate from its own monies. It is not allowed to use client monies for any purpose other than for the purposes of the client. The "clients' money account" shall be designated as such, as held by the insurance and/or reinsurance broker for its clients:

¹ Based on the IC Legal Services Group's Legal Opinion dated 21 May 2021.

- i. A "clients' money account" means a current or deposit account maintained with a financial institution duly authorized under the Bangko Sentral ng Pilipinas in the name of the insurance and/or reinsurance broker in the title of which the word "client" appears;
- ii. An insurance and/or reinsurance broker shall keep at least one client account and may keep as many such accounts as it deems necessary; and
- iii. An insurance and/or reinsurance broker who receives or holds monies on behalf of its clients in relation to insurance broking business shall, without delay, deposit such monies into the client account.

It should be noted that the IC only requires the insurance and/or reinsurance broker to keep client monies in a bank separate from its own monies/fund and not to use client monies for any other purposes than for the benefit of the clients. Although the IC does not require an insurance and/or reinsurance broker to keep separate accounts for each individual client, it is of utmost importance that the broker maintains records of the balances due from/to individual clients and reconciles these balances (on a client-by-client basis) regularly to ensure that client monies are properly kept in client accounts.

For the avoidance of doubt, clients' monies include at a minimum:

- i. Premiums, renewal premiums, additional premiums and return premiums of all kinds;
- ii. Claims and other monies due under contracts of insurance;
- iii. Refunds to clients;
- iv. Fees, discounts, charges, levies relating to contracts of insurance; and
- v. Any other transactions determined by the IC as clients' money.

Commission and brokerage fees earned by the Company may be transferred to the Company's operating or general fund accounts.

d. Fiduciary Ratio Requirement

In addition to the net worth requirement above, an insurance and/or reinsurance broker **with a credit agreement** with an insurance/reinsurance company or broker shall comply with the Fiduciary Ratio Requirement set by the IC.

A credit agreement is a type of transaction wherein an insurance and/or reinsurance broker (1) collects premiums receivable from clients/insurers and remits to insurance/reinsurance companies, (2) remits claim payments to claimants/cedants on behalf of the insurance/reinsurance company or (3) other credit agreement.

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 formula is as follows:

$$\text{Fiduciary Ratio} = \frac{\text{Fiduciary Assets}}{\text{Fiduciary Liabilities}}$$

The fiduciary ratio to be maintained shall be 1:1². Amounts to be used is gross of the commissions, allowances for impairment, taxes, fees and other charges.

Fiduciary assets and liabilities of an insurance and/or reinsurance broker include the following:

Fiduciary Asset Accounts	Fiduciary Liability Accounts
1. Cash Restricted – Clients' Money Account <ul style="list-style-type: none"> i. Client's Money on Hand ii. Client's Money in Bank 	1. Payable to Insurance Companies
2. Receivable from Insurance Companies Clients	2. Payable to the Insured
3. Receivable from Ceding Company (if applicable)	3. Payable to the Ceding Company (if applicable)
4. Receivable from HMOs' Members (if applicable)	4. Payable to HMO provider (if applicable)
	5. Payable to Reinsurer (if applicable)

Recognition and measurement of the fiduciary assets and liabilities shall be in accordance with the latest Standard Chart of Accounts for Insurance and/or Reinsurance Brokers as issued by the Commission, and the applicable accounting standards in the Philippines.

Insurance and/or reinsurance brokers with **direct remittance agreement** (a type of transaction wherein a client/insurer/cedants remits the premium payments directly to the insurance/reinsurance company) shall not be required to comply with the fiduciary ratio and will be required to submit a written "Certification" (see Annex A-III) signed by the appropriate and authorized personnel of the company. However, the said insurance and/or reinsurance broker shall still comply with the net worth requirements as provided in Section 3.1.a. of this CL.

Insurance and/or reinsurance brokers with **both credit and direct remittance agreement** will only need to comply with the fiduciary ratio requirements with respect to its accounts with credit agreement. The Company is required to maintain a schedule that will monitor the accounts with credit agreement and with direct payment arrangements.

- e. Keeping proper books of accounts.** All licensed insurance and/or insurance brokers should strictly adhere to the requirements of CL No. 2018-17 or any equivalent future issuance in preparation of their statutory and prudential submission to the IC.

² An instance where the ratio will not result to 1:1 is when the Company mixes the clients' money with its general fund, which is in violation of this Section.