



<b>Circular Letter (CL) No.:</b>	<b>2022-32</b>
<b>Date:</b>	<b>6 July 2022</b>
<b>Supplements/ Amends:</b>	<b>CL No. 2020-096A Section 1.10 (Examination)</b>

## CIRCULAR LETTER

**TO : ALL MANAGEMENT COMPANIES AUTHORIZED TO DO BUSINESS IN THE PHILIPPINES UNDER THE PERSONAL PASSENGER ACCIDENT INSURANCE (PPAI) PROGRAM**

**SUBJECT : EXAMINATION/VERIFICATION RULES AND PROCEDURES**

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**WHEREAS**, Circular Letter (CL) Nos. 2020-096, 2020-096A and 2020-108 provide for the Framework for Passenger Personal Accident Insurance (PPAI) for Public Utility Program. Currently, the PPAI Program is the only known and licensed insurance pool.

**WHEREAS**, Section 1.1 of CL No. 2020-096A states that "Each pool shall have a duly appointed Management Company duly licensed as a General Agent by this Commission that shall handle day to day operations of the pool in order to ensure the fiscal stability and viability of the program and particularly, to be able to respond to claims quickly and effectively."

**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**, Section 1.10 (Examination) of the same CL provides that "the Commission shall at least once a year and whenever the public interest so demands, cause an examination to be made to ensure compliance with the requirements provided in this Section. The Commission may, in connection with any examination, require the production of all documents relevant to the implementation of the Program."

**WHEREAS**, Section II.2. of CL No. 2020-096 states that any complaint for non-payment of claims or failure to pay the claim within the time required by the Commission or the Land Transportation Franchising and Regulatory Board (LTFRB), or both, by any insured public utility vehicle operator or transport group representing the insured public utility vehicle operator shall be dealt with severely and may lead to disqualification and/or blacklisting of the concerned Management Company and insurance pool from the program.

**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**, 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 Examination/Verification Rules and Procedures for Management Companies under the PPAI Program are hereby promulgated:

#### **SECTION 1: COVERAGE**

- 1.1. This Framework shall govern all management companies with Certificates of Authority/License under CL No. 2020-096A or the Amended Framework for PPAI for Public Utility Vehicles.
- 1.2. This CL does not cover the examination/verification of the Lead insurance company and member insurance companies that are covered in other provisions of the Code, as amended, and pertinent CLs.

#### **SECTION 2: OBJECTIVES**

The objectives of this CL are:

- 2.1. To supplement the enforcement of Section 1 Subsections 2 (Paid-up Capital), 6 (Claims Fund) and 10 (Examination) of CL No. 2020-096A;
- 2.2. To provide statutory reporting requirements for management companies; and
- 2.3. To exercise the authority and power of the IC to refuse renewal, suspend or revoke the license of any insurance pool, management company and member insurance companies in accordance with Section 314 of the Amended Insurance Code.

### **SECTION 3: PAID-UP CAPITAL REQUIREMENT**

- 3.1. IC CL No. 2020-108, *or the Amended Framework for PPAI for Public Utility Vehicles*, requires that a Management Company must have a total paid-up capitalization of Twenty Million Pesos (Php20,000,000.00).
- 3.2. The total paid-up capitalization is computed as the total of common stock issued and outstanding plus additional paid-in capital, *if any*.
- 3.3. The total paid-up capital shall not be utilized for the daily operations of the Management Company.
- 3.4. The total paid-up capital shall be valued in accordance with the generally accepted accounting principles.

### **SECTION 4: CLAIMS FUND REQUIREMENT**

- 4.1. IC CL No. 2020-096A (Section I, Subsection 6) requires that the Pool shall set up a Claims Fund of at least Fifty Million Pesos (Php50,000,000.00) that is intended for the settlement of unforeseen catastrophic loss or in the case of the Pool's dissolution. This fund may be invested in short-term interest earning instruments. Any income or interests earned shall form part of the total Claims Fund and shall not be used in the operations of the Lead Insurance Company or Management Company within the period of the contract. Such income or interests shall be also be recorded in the books and distributed to the members of the Pool in a pro-rata basis to their share or agreed percentage in the contract.
- 4.2. The Pool is required to fund the Claims Fund while the Lead Insurance Company is required to set up the fund in its books. If, as a result of the disbursement, the Claims Fund falls below the required balance of this Commission, the fund is required to be jointly funded by the members of the Pool.
- 4.3. The Management Company is required to monitor the movement of the Claims Fund and shall submit a Claims Fund Report (Section 6) and a joint certification with the Lead Insurance Company.
- 4.4. Apart from the Claims Fund, the Pool is required to set up a claims Revolving Fund equivalent to 2.5% of the annual premium production of the immediately preceding twelve months<sup>1</sup>. This revolving fund shall be used to pay for all valid and processed claims and shall be, at all times, maintained in cash (on hand and/or in bank).

### **SECTION 5: ONSITE EXAMINATION/OFFSITE VERIFICATION**

- 5.1. The IC shall monitor the Management Company on an ongoing basis in accordance with the analysis of information obtained through the annual

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<sup>1</sup> To illustrate: Annual Premium Production [of the preceding 12 months]/4 \*10%

Quarter period ending 30 June 20xx: Php 120,000,000.00/4 \*10% = 3,000,000 [balance of the claims Revolving Fund for July 20xx]

supervisory review or off-site verification and reporting. The examiners shall monitor the Management Company's compliance with the five (5)-working day processing of claims payment and basis for validating premium rate adjustments in the future.

- 5.2. The Commission shall, at least once every three (3) years or whenever it considers or the public's interests so demands, cause an on-site examination to be made into the affairs of the Management Company.
- 5.3. The IC examiners may coordinate whether information provided is enough to cover all areas of interest.
- 5.4. The Management Company must supply any document or information that is requested by the IC.
- 5.5. The IC may provide an exception to certain requirements upon approval of the Management Company's formal written request.

## SECTION 6: SUBMISSION OF REPORTS

- 6.1. All licensed management companies shall submit the following reports via the IC Online Uploading Portal:

Documentary Requirements	Frequency of Submission	Deadline of Submission
Audited Financial Statements signed by the IC-Accredited External Auditor; General Information Sheet; and <i>Other requirements as may be required by this Commission to enforce the objectives of this CL.</i>	Annual	every 31 May after the close of the calendar year
Claims Fund Report <u>and Joint Certification</u>	Annual	every 31 May after the close of the calendar year
Premium/ Risk Register; and Claims Register Report.	Quarterly	every 15 <sup>th</sup> day of the following month

- Claims Fund Report (CFR) – **Annex A**; and
  - The CFR shall include the names of member insurance companies, their respective agreed and actual contributions, the total withdrawal and replenishment amounts for the given period. Income or interest earned shall also be accounted in this report

- Risk/Premium and Claims Register Reports - CL No. 2014-06
  - The Risk Premiums Register shall include the type of unit/vehicle, the number of unit/vehicle insured per type of unit/vehicle and the basic premium received and taxes collected, per type of unit/vehicle (**Annex B**);
  - The Claims Register Report shall include type of unit/vehicle, the number of incidents per type of unit/vehicle including the amount and type of benefits/claims paid (**Annex C**).
  - The Claims Register Report shall also indicate the balance of the claims revolving fund on the date of submission. Supporting document/s (i.e. passbook and/or bank statement) shall be submitted.

6.2. The supervision fee, filing fee, and penalties shall be in accordance with Section VIIB of CL No. 2014-15 (Fees and Charges).

## **SECTION 7: REGULATORY ENFORCEMENT**

- 7.1. If upon examination or verification into the financial condition of the licensed management company it is found that the paid-up capital and claims fund requirement are less than the required values under Section 1 of CL No. 2020-096A and Sections 3 and 4 of this CL, the management company shall:
- Address the paid-up capital deficiency by infusing cash or other liquid assets as approved by this Commission;
  - Address the claims fund deficiency by infusing cash only. In accordance with CL No. 2020-096A, the member insurance companies shall be solidarily liable to the settlement of all valid claims filed to the management company (*Undertaking and Solidary Liability*); and
  - Submit a formal reply that shall include the sources of funds and the effect of such infusion.
- 7.3. Any cash infusion to the Claims Fund made by the members of the Pool shall also be subject to examination and/or verification in accordance with applicable provisions of the Anti-Money Laundering Act.
- 7.4. In case of non-compliance with the cash infusion requirement within the period allowed by the Insurance Commission, the Brokers and Insurance Pools Division will submit its findings to the Licensing Division for its appropriate action (i.e. disqualification and/or blacklisting of the concerned Management Company and insurance pool from the program).
- 7.5. For late payment of claims, the management company is required to pay the claims with 12% interest per annum computed on a calendar day basis. This finding will also be considered in the management company's renewal application. Section I.8. of CL No. 2020-96 requires that payment of all claims

shall be made within five (5) working days upon completion of the required documentation.

**SECTION 8: TRANSITORY PROVISION**

All Management Companies with valid Certificate of Authority under the PPAI Program are required to adopt and submit the requirements of this CL for the 1<sup>st</sup> Semester 2022 (January to June 2022) **on or before 15 August 2022**. Succeeding submissions will follow the prescribed period under Section 6 of this CL.

**SECTION 9: EFFECTIVITY**

The issuance of this CL, upon effectivity, supersedes all previously issued CLs regarding the examination and/or verification of management companies under the PPAI Program.



**DENNIS B. FUNA**  
Insurance Commissioner

