EXAMINATION/ VERIFICATION RULES AND PROCEDURES ON PAID-UP CAPITAL AND NETWORTH COMPLIANCE

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To complement the enforcement of the Insurance Code particularly Section 246,IMC No. 1-2004 items 3, 4 and 5, IMC No. 1-2006, for statutory reporting purposes and to further clarify the audit procedures by the Insurance Commission, the following rules and procedures shall apply:

1. Financial statements of insurance and reinsurance brokers authorized to transact business in the Philippines shall be subject to yearly examination/verification. All concerned entities shall submit present all books of accounts, securities, brokers' agreement, information on policies, details on cessions or retrocessions, rates of commissions and premiums as may be required by the examiner.

Such examiner shall also have the power to examine the officers of such company under oath touching its business and financial condition and the authority to transact business in the Philippines of any such entity shall be suspended by the Commissioner if such examination is refused and such entity shall not thereafter be allowed to transact further business in the Philippines until it has fully complied with all the requirements.

Offsetting of receivables and payables shall be permitted in accordance with the requirements of Philippine Accounting Standards Principles No. 32 (PAS 32), thus, all types of trade receivables and payables (direct and reinsurance) shall be taken up at gross.

2. All monies collected or received as premium payment shall be immediately remitted to the insurance or reinsurance company concerned, unless a period has been agreed upon which in no case shall exceed ninety (90) days from inception of the policy. Reinsurance balances shall also be subjected to confirmation from the concerned principal and any discrepancy shall immediately be reconciled, otherwise, differences will also be subjected to the setting up of non-ledger liabilities.

Likewise, premium receivable/recoverable over ninety (90) days shall also be disallowed unless proof of collection shall be submitted.

3. Proof of investments in bonds, treasury bills, stocks, real estate, loans receivable, cash on hand and in bank shall also be presented/submitted to the examiner and shall be subjected to disallowances if supporting documents are inadequate.

4. All other accounts, such as deferred and prepaid taxes, property and equipment, other assets, other receivables taxes payable, long and short term liabilities shall also be subjected to disallowance as well as setting up of non-ledger liabilities upon proper determination/examination or verification by the examiner.

5. If upon examination into the financial condition of these entities, it is found that the paid-up capital stock is impaired and/or the networth is less than that required under IMC 1-2006, the same shall be fully covered up in cash to be contributed proportionately by the stockholders on record within fifteen (15) days from receipt of the advice from the Insurance Commission.

Any cash infusion by the stockholders shall also be subject to examination and verification in accordance with the provision of Anti-Money Laundering Act of 2001 (Republic Act No. 9160, as amended by Republic Act No. 9194) and Circular Letter No. 24-2005B dated September 2, 2005.

Likewise, when the fund is sourced from a parent company, either locally or abroad, the concerned entity shall submit a certified true copy of the board resolution authorizing the cash infusion from the parent company duly authenticated by the Philippine Consul, if applicable.

All previous rulings and policies inconsistent herewith are hereby revoked. This Circular shall take effect immediately.

Adopted: 06 March 2009

(SGD.) EDUARDO T. MALINIS
Insurance Commissioner

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