



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



Advisory No.:	RS-2024-015
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Date:	09 July 2024

INSURANCE COMMISSION ADVISORY

TO : ALL HEALTH MAINTENANCE ORGANIZATIONS AUTHORIZED TO DO BUSINESS IN THE PHILIPPINES

SUBJECT : PROPOSED CIRCULAR LETTER ENTITLED, "REVISED MINIMUM CAPITALIZATION, FINANCIAL CAPACITY AND OTHER REGULATORY REQUIREMENTS FOR HMOs"

The Commission will be conducting a public consultation relative to the attached draft Circular Letter with the objective of revising the rules and regulations governing the minimum capitalization and financial capacity requirements for HMOs.

Relative thereto, we would like to solicit your comments, suggestions, and recommendations on the draft Circular Letter attached herein, for the Commission to come up with appropriate and applicable regulations. Kindly use the attached template.

Article/Section	Comments and Suggestions	Name of the Entity

Comments/feedback shall be submitted to the IC HMO Division through e-mail to hmodiv@insurance.gov.ph **within fourteen (14) calendar days after the issuance of this Advisory.**

Thank you.


REYNALDO A. REGALADO
 Insurance Commissioner





Circular Letter No.:	
Date:	
Supersedes:	CL Nos. 2016-41, 2017-50 and 2019-74

CIRCULAR LETTER

TO : ALL HEALTH MAINTENANCE ORGANIZATIONS (HMOs) AUTHORIZED TO DO BUSINESS IN THE PHILIPPINES

SUBJECT : REVISED MINIMUM CAPITALIZATION, FINANCIAL CAPACITY AND OTHER REGULATORY REQUIREMENTS FOR HMOs

WHEREAS, Section 1 of Executive Order (EO) No. 192 (s. 2015),¹ mandates that the jurisdiction over HMOs shall be transferred from the Department of Health (DOH) to the Insurance Commission (IC) in order to regulate and supervise the establishment, operations, and financial activities of HMOs;

WHEREAS, the Commission issued IC Circular Letter (CL) No. 2016-41² dated 29 July 2016 prescribing the minimum capitalization and financial capacity requirements for HMOs, the deadline for submission of annual and quarterly reportorial requirements, and the fees for supervision and the penalties thereof for delay of submission;

WHEREAS, under Section 3 of IC CL No. 2016-41, the Commission reserves the right to amend, supplement, or modify the said CL as may be required;

WHEREAS, in recognition of the Commission's objective to establish progressive regulatory and supervisory policies over the HMO industry, the Commission sees the need to revise the rules and regulations that govern the minimum capitalization and financial capacity requirements for HMOs;

NOW THEREFORE, pursuant to the authority vested to this Commission by Section 4 of EO 192, s. 2015, the following revised minimum capitalization, financial capacity and other regulatory requirements for HMOs are hereby promulgated:

¹ Entitled, "Transferring the Regulation and Supervision Over Health Maintenance Organizations from the Department of Health to the Insurance Commission, directing the implementation thereof and for other purposes."

² Entitled, "Minimum Capitalization and Financial Capacity Requirements for HMOs."

SECTION 1. COVERAGE

This CL covers the revised rules and regulations regarding the minimum capitalization and financial capacity requirements for HMOs. It also includes prudential reporting and disclosures, along with other regulatory requirements that HMOs must comply with.

SECTION 2. MINIMUM CAPITALIZATION AND FINANCIAL CAPACITY

2.1 PAID-UP CAPITAL

- a. No domestic HMO shall, in a stock corporation, engage in the business of HMO in the Philippines unless it meets the prevailing minimum paid-up capital requirement, as shown in the matrix below:

Period	Existing HMOs	New HMOs
31 December 2024	₱50,000,000.00	₱100,000,000.00
31 December 2025	100,000,000.00	
31 December 2028	200,000,000.00	
31 December 2031	350,000,000.00	
31 December 2034	500,000,000.00	

- b. Community-based and cooperative HMOs shall maintain a paid-up capital equivalent to fifty percent (50%) of what is prescribed for a regular HMO.
- c. In case of a foreign HMO applying for an HMO branch license, no license shall be issued unless the branch has a statutory deposit of an amount equal to the prevailing minimum paid-up capital for domestic HMOs in cash and/or allowable securities approved by the Commission.

2.2 SECURITY DEPOSIT

- a. Every HMO doing business in the Philippines shall at all times maintain a security deposit of at least twenty-five percent (25%) of the actual paid-up capital of the preceding year.
- b. Security deposit shall be invested only in bonds or other instruments of debt of the Government of the Philippines or its political subdivisions or instrumentalities, or of government-owned-or-controlled corporations and entities, including the Bangko Sentral ng Pilipinas (BSP).
- c. The investment shall at all times be maintained free from any lien or encumbrance.
- d. The investment shall be lodged under a non-tradeable account of the National Registry of Scripless Securities System (NROSS).
- e. All government securities lodged as security deposits must have a maturity of at least one (1) year from the date of transfer to the Commission's NROSS account ICRCPHMM999.

2.3 NET WORTH

- a. All HMOs must maintain a net worth that is at least equal to their actual paid-up capital.
- b. In the examination of HMO's financial condition, assets of doubtful economic value and/or unsupported shall not be considered. Liabilities not set up in the books as of a given accounting period shall be treated as non-ledger liabilities.
- c. If it is found that the net worth is less than the amount as required in this CL, the same shall be fully covered up with cash to be contributed proportionately by the stockholders on record within thirty (30) days from receipt of the advice from the Insurance Commission.

2.4 RISK-BASED CAPITALIZATION (RBC)

- a. The HMO's maximum risk on gross membership fees shall be determined by the following:

Net worth	Maximum Gross Membership Fees
Up to ₱1 billion	Five (5) times the net worth
Over ₱1 billion	No limit

For this purpose, gross membership fees pertain to the total annual fees arising from full-risk HMO agreements of the pre-agreed set of health services.

- b. If upon examination, it is found that the total risk on membership fees exceeds the above Maximum Gross Membership Fees as required in this CL, the same shall be fully covered up by cash infusion to be contributed proportionately by the stockholders on record within thirty (30) days from receipt of notice from the Insurance Commission.

2.5 LIQUIDITY

- a. HMOs shall at all times maintain an Acid Test Ratio (ATR) of at least 1.0, which shall be computed using the following formula:

$$ATR = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

- b. Quick assets are composed of cash and other assets reasonably realizable in cash or intended for sale or consummation within 12 months after the reporting period, excluding prepaid or deferred charges for expenses and other similar assets, that are identified and verified by the Commission as quick assets.

- c. Current liabilities are composed of obligations reasonably expected to be settled within the normal business operating cycle, that (a) are due within 12 months after the balance sheet date, (b) are held primarily for the purpose of being traded, (c) does not have an unconditional right to defer settlement of liability for at least 12 months after the reporting period.
- d. If upon examination of the HMO's financial condition, it is found that the ATR is less than the required ratio in this CL, HMOs may collect its long-term receivables and/or liquefy non-current assets within ten (10) days from receipt of the advice from the Commission infuse cash to be contributed proportionately by the stockholders on record within thirty (30) days from receipt of notice from the Commission

2.6 VALUATION OF REAL ESTATE PROPERTIES

Valuation of real estate properties shall require prior approval from the Commission and shall be conducted by a Securities and Exchange Commission (SEC)-accredited appraiser.

2.7 CASH INFUSION

- a. Any cash infusion by the stockholders to cover any impairment or deficiency in net worth, liquidity, and RBC may be recorded as "Contingency Surplus" in the HMO's equity accounts. This account can be withdrawn only upon prior written approval by the Commission.
- b. The Commission shall require documents that, in its assessment, would reasonably assure the validity of the cash infusion. It shall also be subject to examination and verification in accordance with the provisions of Republic Act (RA) No. 9160 or the Anti-Money Laundering Act of 2001, as amended by RA No. 9194, 10167 and 10365, IC CL No. 24-2005B, 2011-30, 2018-48, 2018-60, and 2019-65, as well as other relevant laws and issuances.

SECTION 3. PRUDENTIAL REPORTING AND DISCLOSURE

3.1 DISCLOSURE REQUIREMENT

In addition to the disclosures required under the Philippine Financial Reporting Standards, HMOs shall present information on their compliance with the minimum capitalization and financial capacity requirements specified in Section 2 of this CL in a separate supplemental report to the Financial Statements for the year ending 31 December, following the IC-prescribed template (**Annex A**).

3.2 REPORTORIAL REQUIREMENTS

a. Audited Financial Statements (AFS)

All HMOs are required to submit their AFS for the year ending 31 December and other required documents or attachments on or before 31 May of the following year, in accordance with IC CL No. 2024-12.³

A filing fee of ₱40,000.00 plus ₱400.00 representing Legal Research Fund (LRF) shall be imposed upon submission of the AFS and ₱10,000.00 for every calendar day of delayed submission.

b. Interim Financial Statements (IFS)

Additionally, all HMOs must submit their IFS in accordance with IC CL No. 2019-43,⁴ following the schedule below:

Period Covered	Deadline of Submission
As of 31 March	15 April
As of 30 June	15 July
As of 30 September	15 October
As of 31 December	15 January

HMOs who fail to submit their IFS based on the respective deadlines shall be subjected to a basic fine of ₱10,000.00 and ₱1,000.00 for every calendar day of delayed submission.

c. Documentary Requirements for Security Deposit

HMOs that have purchased government securities in compliance with security deposit requirement shall report the same to the Commission, through the Investment Services Division, within the day of transfer of securities. The report shall be accompanied by:

- i. Copy of Confirmation of Sale/Transfer from the bank; and
- ii. Certification on Compliance with the Security Deposit Requirement (**Annex B**).

³ Entitled, "Guidelines on the Electronic Filing of the Audited Financial Statements and Attachments of HMOs."

⁴ Entitled, "Guidelines on the Analysis of Quarterly Interim Financial Statements of Health Maintenance Organizations (HMOs)."

SECTION 4. SUPERVISION FEE

HMOs are required to pay the annual supervision fee, which is due on or before 01 March of each year and shall be collected based on the following:

Gross Membership Fees	Supervision Fee	Legal Research Fee
Up to ₱10 million	₱100,000.00	₱1,000.00
Over ₱10 million to ₱50 million	1% of the Gross Membership Fees	1% of the Supervision Fee
Over ₱50 million	₱500,000.00	5,000.00

HMOs that fail to pay the required fee will be subject to a basic fine of 25% of the supervision fee plus an additional ₱1,000.00 for each calendar day the payment is delayed.

SECTION 5. REGULATORY ACTION

The Commission shall order an HMO to show cause in writing within five (5) days from notice as to why no regulatory action should be taken by the Commission against the HMO and its officers for the following non-compliance:

- a. Failure to meet the prevailing minimum paid-up capital requirement;
- b. Security deposit remaining below the minimum amount required for a period of five (5) days;
- c. Failure to address any impairment or deficiency in net worth, liquidity, or RBC within the prescribed period;
- d. Excessive delay in the submission of the required reports under Section 3.2 of this CL; and
- e. Excessive delay in payment of the supervision fees.

Excessive delay shall mean 180 calendar days from the deadline set by this CL.

In the event of an HMO's failure to provide any justifiable cause for its non-compliance or to respond to the Show Cause Order within the period prescribed, the HMO shall be ordered to cease and desist from continuing its business conduct in accordance with Section 4 of EO 192, s. 2015, and IC CL No. 2019-35.⁷

SECTION 6. AMENDMENTS, SUPPLEMENTS OR MODIFICATIONS

The Commission reserves the right to amend, supplement, or modify this CL as may be required.

⁷ Entitled, "Guidelines for the Conservatorship of Health Maintenance Organizations (HMOs) and Appointment of Conservators."

SECTION 7. REPEALING CLAUSE

All other CLs, issuances, or parts thereof, contrary to or inconsistent with the provisions of this CL are deemed repealed, superseded or modified accordingly.

SECTION 8. SEPARABILITY CLAUSE

If any provision of this CL shall be held unconstitutional or invalid, the other provisions not otherwise affected shall remain in full force and effect.

SECTION 9. EFFECTIVITY

This CL shall take effect immediately.

REYNALDO A. REGALADO
Insurance Commissioner

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ANNEX A – SUPPLEMENTARY REPORT

SAMPLE 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 Standard on Auditing the financial statements of _____ (the Company) as at and for 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 basic financial statements of the Company taken as a whole. The supplementary information included in the "Annex" is the responsibility of the Company's management.

The supplementary information is presented for purposes of complying with the Insurance Commission Circular Letter No. _____ and is not a required part of the Company's basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the Company's basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Name and Signature of External Auditor / Auditing Firm

ITEMS TO BE REPORTED IN THE SUPPLEMENTARY REPORT BY THE HEALTH MAINTENANCE ORGANIZATIONS

In compliance with the requirements set forth by IC Circular Letter No. _____, hereunder is the information on the Company's compliance with the prudential financial requirements prescribed by the Insurance Commission:

A. Paid-Up Capital

Paid-up capital per Company	P	xxx
Required minimum paid-up capital		xxx
Excess (Deficiency) in the Paid-up Capital	P	xxx

B. Security Deposit

Paid-Up Capital	P	xxx
Multiply by		25%
Minimum Required Security Deposit	P	xxx
Less: Actual Security Deposit		xxx
Excess (Deficiency)	P	xxx

C. Net Worth

Total Assets	P	xxx
Total Liabilities		xxx
Total Stockholders' Equity/Net Worth	P	xxx
Actual Paid-up Capital		xxx
Excess (Deficiency) in Net Worth	P	xxx

D. Risk-Based Capitalization

Actual Gross Membership Fee	P	xxx
Maximum Risk on Membership Fee (Net worth x 5 or "No Limit")		xxx
Over Exposure	P	xxx

E. Liquidity

Quick Assets	P	xxx	=	<u>XX</u>
Current Liabilities	P	xxx		

F. Other Requirements (specify CL No.)

Notes:

In case of non-compliance to any of the requirements, the Company shall disclose its management plan/s or action to address the deficiencies.

ANNEX B

CERTIFICATION ON COMPLIANCE WITH THE SECURITY DEPOSIT REQUIREMENT

(Name of Regulated Entity)

CERTIFICATION

I, Name of Authorized Officer, President of Name of Regulated Entity, with office address at Head/Principal Office, after having been duly sworn in accordance with the law, hereby certify the following:

- 1. The following government securities have been transferred to the Insurance Commission as a security deposit for the faithful performance by Name of Regulated Entity (the Company) of all its obligations under its insurance contracts in accordance with the provisions of IC Circular Letter No. _____:

ISIN Due Date Face Value

- 2. The Company shall reinvest the proceeds of the securities mentioned in the preceding paragraph within five (5) days upon maturity or replace with another government securities acceptable to the Insurance Commission.
3. The Company understands that non-compliance with the foregoing shall be grounds for the immediate suspension or revocation of its certificate of authority in accordance with the pertinent provisions of the Amended Insurance Code.

SIGNATURE ABOVE PRINTED NAME OF AUTHORIZED OFFICER

Subscribed and sworn to before me, this ___ day of _____, affiant exhibiting valid identification indicated below:

Name Government ID Date/Place of Issue

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Notarial Seal on the date and place first above written.

Doc. No.:
Page No.:
Book No.:
Series of _____.