



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



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Date:	29 July 2016
Supersedes:	None

CIRCULAR LETTER

**TO : ALL HEALTH MAINTENANCE ORGANIZATIONS (HMOs)
DOING BUSINESS IN THE PHILIPPINES**

**SUBJECT : MINIMUM CAPITALIZATION AND FINANCIAL CAPACITY
REQUIREMENTS FOR HMOs**

WHEREAS, Section 3(8), Chapter 1, Title IX, Book IV of the Administrative Code of 1987 mandates the Department of Health (DOH) to regulate the operations of and issue licenses and permits to hospitals, clinics, dispensaries, and other establishments, which include Health Maintenance Organizations (HMOs)¹;

WHEREAS, an HMO refers to a juridical entity legally organized to provide or arrange for the provision of pre-agreed or designated health care services to its enrolled members for a fixed pre-paid fee or a specific period of time¹;

WHEREAS, the President, under Article VII, Section 17 of the Constitution, has the power and control over executive departments, bureaus and offices, as well as the continuing authority under existing laws to reorganize such executive departments, bureaus, and agencies¹;

WHEREAS, Section 1, Executive Order (EO) No. 192, s. 2015, mandates that jurisdiction over Health Maintenance Organizations (HMO) 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 HMOs¹;

¹ Executive Order (EO) No. 192, s. 2015

WHEREAS, The IC shall have the authority to exercise the following functions², among others:

- a. Issue rules and guidelines, with respect to the establishment of HMO minimum capitalization, net worth, reserve funds and security deposit requirements, as well as the criteria for qualification and disqualification of directors, officers and marketing personnel, and the procedure for the submission of reportorial and/or examination requirements, registration of contracts and plans, adjudication of claims, and other relevant matters, as necessary;
- b. Fix, assess, collect, and utilize fees and/or charges as it may find reasonable in the exercise of regulatory powers;
- c. Regulate, supervise, and monitor the operations and management of HMOs to ensure compliance with EO No. 192, s. 2015, existing laws, rules, regulations and such other directives and circulars issued by the Insurance Commissioner;
- d. Prepare, approve or amend, rules, regulations, orders, and circulars, and issue opinions, provide guidance on and supervise compliance with such rules, regulations, orders, and circulars; and
- e. Exercise such other powers as may be provided by law as well as those which may be implied from, or which are necessary or incidental to carry out the express powers granted to the IC to achieve the objectives and purposes of EO No. 192.
- f. Pursuant to existing laws, rules, and regulations, impose sanctions, and/or appropriate penalties;

NOW THEREFORE, by the power vested in me by the provisions of EO No. 192, s. 2015, the Insurance Commission (IC) do hereby order and direct:

Section 1. Financial Capacity Requirements

1.1. Paid-Up Capital

- a. All existing domestic HMOs must have a minimum Paid-Up Capital of at least Ten Million Pesos (Php10,000,000.00).
- b. No new HMO shall, in a stock corporation, engage in the business of HMO in the Philippines unless it has a Paid-Up Capital of at least One Hundred Million Pesos (Php100,000,000.00).

² Section 4, Executive Order (EO) No. 192, s. 2015

- c. Community-based and cooperative HMOs shall maintain a Paid-Up Capital equivalent to fifty percent (50%) of what is prescribed for regular HMO.
- d. In case of foreign HMO applying for an HMO branch license, no license shall be issued unless the branch has a statutory deposit of an amount of at least One Hundred Million Pesos (Php100,000,000.00) in cash and/or allowable securities approved by the Insurance Commissioner.
- e. The Commission may increase such minimum Paid-Up Capital and net worth requirement to an amount which, in its opinion, would reasonably assure the safety and the interests of the HMO members and the public.

1.2. Deposit Requirements

- a. Unless otherwise provided by law, HMOs shall deposit with the Commission or, at the discretion of the Commissioner, trustee bank acceptable to the Commissioner through which a custodial account is utilized, cash, treasury bills, treasury bonds, or any combination of these that are acceptable to the Commissioner which at all times shall have a value of not less than twenty percent (20%) of HMO's actual Paid-Up Capital as prescribed in this Circular.
- b. The Deposit shall be considered asset of the HMOs in the determination of its unimpaired Paid-Up Capital and/or Net Worth.
- c. All income from Deposits shall be an asset of the HMOs. HMOs that has made a deposit may withdraw the deposit or any part thereof after making a substitute Deposit of cash, treasury bills, treasury bonds, or any combination of these that are acceptable to the Commissioner of equal amount and value.
- d. Deposits, substitutions or withdrawals may be made only with the prior written approval of the Commission.
- e. The Deposit shall be used to protect the interests of the HMOs' enrolled members and to assure continuation of health care services to them.
- f. The Insurance Commissioner may increase the Deposit Requirement if, in his opinion, such increase would reasonably assure the safety and the interests of the HMO members and the public.

1.3. Risk-Based Capitalization

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

Paid-Up Capital (PUC)*	Maximum Gross Membership Fees
Up to 50M	5 times of PUC
More than 50M up to 75M	10 times of PUC
More than 75M up to 200M	15 times of PUC
More than 200M up to 300M	25 times of PUC
More than 300M up to 400M	30 times of PUC
More than 400M up to 500M	50 times of PUC
More than 500M	No Limit

For this purpose, Gross Membership Fees pertains to the total annual fees arising from healthcare agreements of pre-agreed set of health services.

If upon examination/verification, it is found that the total annual risk on membership fees exceed the above Maximum Gross Fees as required in this Circular, the same shall be fully covered up by cash infusion within thirty (30) days from receipt of notice from the Insurance Commission.

Failure to comply within the prescribed period shall be subject to a penalty amounting to two percent (2%) of the required cash infusion plus Php500.00 for every calendar day of delay. Certificate of Authority (CA) shall be suspended or no CA shall be issued until compliance with this requirement.

Any cash infusion by the stockholders shall also be subject to examination and verification in accordance with the provisions of Anti-Money Laundering Act of 2001 (Republic Act No. 9160, as amended by Republic Act No. 9194, Republic Act No.10167 and Republic Act No.10365) and Circular Letter No. 24-2005B dated September 2, 2005 and other pertinent laws and issuances.

The Commission may require the adoption of risk-based capital approach and other internationally accepted solvency measures.

1.4. Net Worth Requirement

- a. All HMOs must have a Net Worth which should be not less than its 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 book as of a given accounting period shall be treated as non-ledger liabilities.

If it is found that the Net Worth is less than the amount as required in this Circular, the same shall be fully covered up in cash to be

contributed proportionately by the stockholders on record within thirty (30) 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 provisions of Anti-Money Laundering Act of 2001 (Republic Act No. 9160, as amended by Republic Act No. 9194, Republic Act No.10167 and Republic Act No.10365) and Circular Letter No. 24-2005B dated September 2, 2005 and other pertinent laws and issuances.

Likewise, when the cash is sourced from the 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.

1.5. Liquidity Requirement

- a. HMOs shall at all times maintain an acid test ratio of at least 1.0.

Acid Test Ratio (ATR) = Current Assets/ Current Liabilities

Current assets are composed of cash and other assets that are reasonably to be realized in cash or intended for sale or consummation within 12 months after the reporting period (balance sheet date), or the normal operating cycle of the business, unless it is restricted from being exchanged to settle a liability for at least 12 months after the reporting period⁴ identified and verified by the IC as current assets.

Current liabilities are composed of claims payables, health fund/administrative services only (ASO), reserves, and “obligations reasonably expected to be settled within the normal business operating cycle, that (a) is due within 12 months after balance sheet date, (b) is 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 balance sheet date”⁵.

If upon examination of HMO’s financial condition, it is found that the ATR is less than the required ratio in this Circular, HMOs may collect its long-term receivables and/or liquefy non-current assets within ten (10) days from receipt of the advice from the Insurance Commission.

Otherwise, any cash infusion by the stockholders shall also be subject to examination and verification in accordance with the provisions of Anti-Money Laundering Act of 2001 (Republic Act No. 9160, as amended by Republic Act No. 9194, Republic Act No.10167 and

⁴ (PAS 1, par.66)

⁵ (PAS 1, PFRS p.397)

Republic Act No.10365) and Circular Letter No. 24-2005B dated September 2, 2005 and other pertinent laws and issuances.

1.6. Revaluation of Assets

The Commission accepts only appraisals from the acceptable independent appraiser recognized by the Department of Trade and Industry and/or any competent government office.

For the purpose of determining the net worth requirement, appraisal increment on property, plant and equipment (PPEs) is not allowed, unless with prior written approval by the Commission.

1.7. Declaration of Dividends

No domestic HMO corporation shall declare or distribute any dividend on its outstanding stocks unless it has met the minimum Paid-Up Capital and net worth requirements under this circular and except from profits attested in a sworn statements to the Commissioner by the president or treasurer of the corporation to be remaining on hand after retaining unimpaired:

- (a) The entire Paid-Up Capital stock;
- (b) The Net Worth and Liquidity Requirements defined under this Circular;

Any dividend declared or distributed under the preceding paragraph shall be reported to the Commissioner within thirty (30) days after such declaration or distribution. Otherwise, HMO shall be billed Php5,000.00 as basic fine plus Php500.00 for every calendar day of delay.

If the Commissioner finds that any such HMO has declared or distributed any such dividend in violation of this section, he may order such HMO to cease and desist from doing business until the amount of such dividend or the portion thereof in excess of the amount allowed under this section has been restored to said HMO.

Section 2. Submission of Reportorial Requirements

2.1 Reportorial Requirements

All HMOs are required to submit the following on or before May 31 of each year:

- a. Copy of Audited Financial Statements filed with the BIR and Adjusted Trial Balance.
- b. Schedule of Total Gross Membership Fees

- c. Actuarial Studies
 - c.1 Morbidity Study/Claims Experience
 - c.2 Expense Study
- d. Actuarial Valuation Report prepared by accredited actuary
- e. Corporate Records:
 - e.1 Latest General Information Sheet filed with the SEC.
 - e.2 List of Current Members of Board of Directors and Officers, their respective addresses and position.
 - e.3 Copy of the latest Articles of Incorporation and By-Laws.
 - e.4 Copy of Minutes of Meetings of the Board, including a copy of the Board Resolutions made during the year
- f. Any other reports the Commission may require.

2.2 Quarterly Reportorial Requirements for ATR and Net Worth

All HMOs are required to submit the following on or before the 15th day of the month following the end of each quarter starting 15 October 2016.

- a. Interim Financial Statements (IFS)
- b. Computation of ATR and Net Worth

Starting 2017, the IFS, ATR and Net Worth submission for each quarter are due on or before the following dates:

Quarter Ending	Due Date
March 31	April 15
June 30	July 15
September 30	October 15
December 31	January 15

2.3 Filing Fee and Penalty

A filing fee of Php20,000.00 plus Php200.00 representing Legal Research Fund (LRF) shall be imposed upon submission of items under 2.1 of this Circular and Php5,000.00 for every calendar day of delayed submission.

HMOs who fail to submit items under 2.2 of this Circular based on the respective deadlines shall be subjected to a basic fine of Php5,000.00 and Php500.00 for every calendar day of delayed submission.

2.4 Supervision Fee

Annual supervision fee shall be due on or before 01 March of each year and shall be collected based on the following:

<u>Paid-Up Capital</u>	<u>Fee</u>	<u>LRF</u>
10Million – 20Million	20,000.00	200.00
Over 20Million– 75Million	50,000.00	500.00
Over 75Million	75,000.00	750.00

HMOs that fail to pay such fee shall be subjected to a basic fine of Php5,000.00 plus Php500.00 for every calendar day of delayed payment.

Section 3. Amendments, Supplements or Modifications

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

Section 4. Separability Clause

If, for any reason, any part or provision of this Circular is declared invalid or unconstitutional, any part or provision not affected thereby shall remain in full force.

Section 4. Effectivity

This Circular Letter shall be effective after fifteen (15) days from the date of its issuance.



EMMANUEL F. DOOC
Insurance Commissioner