



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



<b>Circular Letter (CL) No.</b>	<b>2022-49</b>
<b>Date:</b>	<b>21 November 2022</b>
<b>Amends:</b>	<b>CL Nos. 2016-41 &amp; 2020-22</b>
<b>Supersedes:</b>	<b>CL No. 2020-100</b>

**CIRCULAR LETTER**

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

**SUBJECT :** REVISED IMPLEMENTATION REQUIREMENTS FOR THE VALUATION STANDARDS FOR HEALTH MAINTENANCE ORGANIZATION (HMO) AGREEMENT LIABILITIES AND ANNUAL REPORTING FOR HMOs, SUPERSEDING CL NO. 2020-100

**WHEREAS**, this Commission issued Circular Letter (CL) No. 2020-22 *Valuation Standards for Health Maintenance Organization (HMO) Agreement Liabilities* which provides the guidelines on how HMO should value their HMO Agreement Liabilities;

**WHEREAS**, this Commission issued CL No. 2020-100, *Implementation Requirements for Circular Letter No. 2020-22 Valuation Standards for Health Maintenance Organization (HMO) Agreement Liabilities and Quarterly and Annual Reporting for HMOs*. Said circular prescribes the transitory provisions during the initial years of implementation of CL No. 2020-22, which include, among others, relaxed requirements of Membership Fee Reserves, Claim Reserves, Margin for Adverse Deviation, and Reserves under ASO Endorsement.

**WHEREAS**, this Commission recognizes that due to the continuing challenges of HMOs in complying with the requirements of CL Nos. 2020-22 and 2020-100 during the pandemic, there is a need to extend the transition relief provided in CL No. 2020-100.

**WHEREAS**, based on the submitted Unaudited Interim Financial Statements of HMOs as of 31 December 2021, while the membership/enrollment fees for HMOs slightly increased by

1.22% in 2021 from Php50.97 billion in 2020 to Php51.59 billion in 2021, the Healthcare Benefits and Claims increased by 25.05% from Php26.17 billion in 2020 to Php32.72 billion in 2021, **thereby resulting to a 27.63% decrease in Net Income of the entire HMO industry in 2021**. Figures, as of the 1<sup>st</sup> Quarter of 2022, showed a decrease in Total Net Income from Php1.559 billion (1<sup>st</sup> Quarter 2021) to Php863.99 million (1<sup>st</sup> Quarter 2022)

**WHEREAS**, in a Memorandum dated August 16, 2022, the HMO Division then stated: "The requirement of the submission of Quarterly AVR raises an issue since the amounts to which the AVR are based, along with other amounts reported in the IFS, are essentially not audited. Corollary, subject to change and/or adjustment for the preparation of the Audited Financial Statements at year-end."

"For this reason, should the Commission find it reasonable, this Division interposes no objection on not requiring the HMO companies to submit AVR on a quarterly basis."

**WHEREAS**, the Philippine Association of Health Maintenance Organization Companies, Inc. (PAHMOC), in a letter dated August 17, 2022, presented the declining business of the industry brought about by the pandemic and high volume of claims to seek reliefs for the industry.

**WHEREAS**, in a subsequent Memorandum dated November 9, 2022, the current HMO Division recommended the retention of the quarterly submission of the AVR, stating that: "In the audit of the reserves set up by HMOs, the IC financial examiners rely on the expertise of the actuaries duly-accredited by the IC. In preparing the AVR, the IC-accredited actuary conducts necessary tests to verify the reasonableness and integrity of the data provided to them by the HMO."

**WHEREAS**, the Insurance Commissioner has taken note of the abovecited conflicting recommendations and duly notes, accordingly, and emphasizes that the reserve requirement shall continue to be complied with and, more importantly, that the annual AVR remains to be verified by actuaries duly-accredited by the Commission, and that the reserves remains to be, and shall continue to be, actuarially computed.

**NOW, THEREFORE**, pursuant to the power granted to the Insurance Commissioner under Section 4 of the Executive Order No. 192, s. 2015 dated 12 November 2015, the following guidelines are hereby adopted and promulgated:

**Section 1. Implementation:** CL No. 2020-22, which also covers products not in accordance with products defined under CL No. 2017-19, shall take effect beginning with the valuation as of December 31, 2020.

**Section 2. Transitory Provisions for CL No. 2020-22:** The requirements during the initial years of implementation of CL No. 2020-22 will be as follows:

**a. Membership Fee Reserve**

For 2020 and 2021, companies shall be allowed to set up as Membership Fee Reserves the Unearned Membership Fee Reserves (UMFR) instead of the higher of the UMFR and Unexpired Risk Reserve (URR). The UMFR may be calculated using the 1/24<sup>th</sup> method.

Starting 2022, the Membership Fee Reserves shall be determined in accordance with the valuation standards prescribed under CL No. 2020-22.

The company shall be allowed to set the Margin for Adverse Deviation (MfAD) for URR as provided in item 2c below.

**b. Claim Reserves**

Claim Reserves shall be determined in accordance with Section 8 of the valuation standards under CL No. 2020-22 or Section 6 of the Addendum to valuation standards under CL No. 2020-22, whichever is applicable.

The company shall be allowed to set the MfAD for Claim Reserves as provided in item 2.c below.

**c. Margin for Adverse Deviation**

MfAD, as defined under Section 9 of the valuation standards under CL No. 2020-22 and Section 7 of the Addendum for valuation standards under CL No. 2020-22, shall be company specific. The companies shall submit to the IC the documents and certification signed by an IC-accredited actuary to support the computation of their MfAD.

Companies shall be allowed to set the MfAD as follows:

<b>Period Covered</b>	<b>Percentage (%) of company-specific MfAD</b>
2021 - 2022	0%
2023 - 2024	50%
2025 – 2026	75%
2027 onwards	100%

**d. Reserves under an ASO Endorsement**

For 2020, and 2021, companies shall be allowed to compute the Unearned Administrative Fee Reserves (UAFR) using the 1/24<sup>th</sup> method.

Starting 2022, the UAFR shall be calculated in accordance with Section 10.2 of the valuation standards.

**Section 3. Reportorial Requirements.**

The Annual Reportorial Requirements prescribed in Section 2.1 of CL No. 2016-41 shall include the Actuarial Valuation Report in accordance with CL No. 2020-22 and shall be submitted on or before 31<sup>st</sup> of May of the succeeding year of the reporting year **starting 31 December 2020.**

**Section 4. Template.** Attached is the HMO Valuation Template which the companies shall use in preparing the Summary of the HMO Valuation Results required under Section E of the Actuarial Valuation Report as stated in Annex A of CL No. 2020-22.

All HMOs shall submit a valuation file and provide the summary of results per product.

**Section 5. Penalties.** Failure to submit and incomplete submission of the reportorial requirements on submission dates shall be subject to penalties as determined by the Insurance Commission in accordance with pertinent circulars.

**Section 6. Separability Clause.** If any provision of this Circular shall be held unconstitutional or invalid, the other provisions not otherwise affected shall remain in full force and effect.

**Section 7. Superseding Clause.** CL No.2020-100 is hereby accordingly superseded.

**Section 8. Effectivity.** This Circular Letter shall take effect immediately.

Please be guided accordingly.



**DENNIS B. FUNA**  
Insurance Commissioner

