VALUATION STANDARDS FOR HEALTH MAINTENANCE ORGANIZATION AGREEMENT LIABILITIES

1. Introduction

1.1. Every Health Maintenance Organization (HMO) supervised by the Insurance Commission (IC) shall value their HMO Agreement Liabilities in accordance with this Valuation Standards.

2. Scope and Application

2.1. This Valuation Standards shall apply to all HMO Agreements issued by HMOs for HMO products defined under IC Circular Letter No. 2017-19.

3. Key Definitions

3.1. In this Valuation Standards, unless the context otherwise requires:

3.1.1. "Company" refers to an HMO supervised by the IC.

3.1.2. "Client" refers to the Principal Member/Payor, in the case of Individual/Family or the Client Company/Association in the case of Corporate/Group.

3.1.3. "Actuary" refers to an in-house actuary of the Company or an external consulting actuary accredited by IC as an HMO actuary.

3.1.4. "Health Maintenance Organization (HMO) Agreement or HMO Agreement" refers to the contract between the Company and the Client for the delivery of a pre-agreed or designated health care benefits and services by the Company to the member for a fixed pre-paid fee regardless of the payment option chosen by the Client.

3.1.5. "Administrative Services Only (ASO) Endorsement or ASO Endorsement" refers to the document affixed to the HMO Agreement whenever all or a portion of the fixed pre-paid fee is in the form of an enrolment fee, administrative fee and a fund. The ASO Endorsement is the document that states which of the benefits in the HMO Agreement are fund-based; and that all of the risk related to benefit payments drawn from the fund is borne by the Client.
3.1.6. "Membership Fee" refers to the fees arising for the period being reported from HMO Agreements where the HMO assumes the risk of funding the member's health care services and related administrative costs.

3.1.7. "Enrolment Fee" refers to the amount of fee arising for the period being reported for each member to be covered under an ASO Endorsement to be able to access the network. This is sometimes referred to as the network access fee.

3.1.8. "Administrative Fee" refers to the amount of fee arising for the period being reported for the administration of the fund and handling of claims payment under an ASO Endorsement.

3.1.9. "In-force Agreement" refers to a contract for which the Company has liabilities for promised or contracted benefits, or for the delivery of services. An in-force contract is a contract wherein (a) the Membership Fee is up-to-date or within the grace period; or (b) the coverage may still be reactivated, as provided for in the contract.

3.1.10. "ASO Fund" refers to the amount of fund owned by the Client which the Company will use to provide for benefits covered under an ASO Endorsement.

3.1.11. "HMO Agreement Liabilities" refers to the measure of the liabilities of the HMO for its In-force Agreements as of valuation date which is composed of the "HMO Agreement Reserves", "ASO Fund Liabilities" and "Unearned Administrative Fee Reserves" as applicable.

3.1.12. "HMO Agreement Reserves" refers to all benefit liabilities for membership fee-based benefits or where the fixed pre-paid fee is in the form of a membership fee where the risks are borne by the Company, which is the aggregate of the Claim Reserves and Membership Fee Reserves as defined below.

3.1.13. "Claim Reserves" refers to claims incurred but not yet paid as of the end of the valuation date. It includes claims due and unpaid, claims in the course of settlement, resisted claims and those which are incurred but not reported at a designated level of confidence, as well as direct and indirect expenses related to settling all outstanding claims, whether reported and unreported, as of valuation date.

3.1.13.1. "Due & Unpaid (D&U) Claims" refers to the liabilities for claims that have been reported, adjudicated and processed, but for which final payment has not been recorded as of valuation date.
3.1.13.2. "In Course of Settlement (ICOS)" refers to the liabilities for claim already known and identified but not yet adjudicated, settled and paid by the Company as of valuation date.

3.1.13.3. "Resisted Claims" refers to amount of claims that are in dispute such as those for which a known litigation situation exists.

3.1.13.4. "Incurred but not Reported (IBNR)" refers to the amount to be provided for claims in respect of claim events that have occurred but have not been reported to the Company as of the valuation date.

3.1.13.5. "Claims Handling Expense Reserve" refers to the estimated amount of expenses for settling all claims, whether reported or unreported, outstanding as of valuation date.

3.1.14. "Membership Fee Reserves" refers to all future claim payments and related expenses for policy maintenance and claims settlement, to be made after the valuation date, arising from future events for which the Company is liable under its HMO Agreements, and is computed as the higher of the Unearned Membership Fee Reserves and Unexpired Risk Reserves at a designated level of confidence.

3.1.14.1. "Unearned Membership Fee Reserves" or "UMFR" refers to the amount of reserve for that portion of the membership fee, net of taxes and commissions paid or due to the Company which is applicable to the period of coverage extending beyond the valuation date.

3.1.14.2. "Unexpired Risk Reserves" or "URR", refers to the amount of reserve required to cover future claims and expenses, at a designated level of confidence, that are expected to emerge from an unexpired period of cover.

3.1.15. "ASO Fund Liabilities" refers to all liabilities for fund-based benefits where the risks are borne by the Client, which is set-up equal to the Previous Period ASO Fund plus additional contributions to the fund less Fund Withdrawals (FW) as defined below.

3.1.16. "Fund Withdrawals" refers to the amount withdrawn from the ASO Fund to pay the cost of benefits availed by the members and its related expenses under an ASO Endorsement.

3.1.17. "Projected Fund Withdrawals" refers to the estimated amount to be withdrawn from the ASO Fund to pay the cost of benefits for claims (a)
that have been reported, adjudicated and processed, but for which final payment has not been recorded as of valuation date; (b) already known and identified but not yet adjudicated, settled and paid by the Company as of valuation date; (c) that are in dispute such as those for which a known litigation situation exists; (d) that have occurred but have not been reported to the Company as of the valuation date; and (e) its related expenses under an ASO Endorsement.

3.1.18. "Unearned Administrative Fee Reserves" or "UAFR" refers to the amount of reserve for that portion of the Administrative fee, net of taxes and commissions paid or due to the Company which is applicable to the period of coverage extending beyond the valuation date.

4. Data and Systems

4.1. The Company's Chief Executive Officer (CEO) or a Responsible Officer with a comparable rank shall ensure that the Company's database is properly maintained so that the membership fees and claims data provided to the Actuary is accurate and complete. The CEO or the Responsible Officer must furnish the data to the Actuary and must allow his/her Actuary reasonable access to the Company's database.

4.2. The Actuary shall apply reasonable tests to satisfy himself that the membership fees and claims data is accurate and complete. A check for both integrity and completeness of data should precede the valuation work. Furthermore, the Company shall build, if it has not done yet in the past, and maintain a historical claims database of at least five (5) years.

4.3. The Company shall create loss development triangles on both paid and incurred claims. The length of historical data needed in creating the loss development triangles must be based on the Company's underlying business.

4.4. Companies which have insufficient data shall be required to use as much data as they currently have until they have accumulated the appropriate length of historical claims data for valuation purposes.

4.5. The Company shall also maintain records on historical earned and unearned membership fees as well as commissions and other expense information in relation to policy maintenance and claims settlement, for the purpose of estimating future expenses for valuation of HMO Agreement reserves.

4.6. The Company shall determine the granularity of data for the valuation of HMO Agreement reserves.
5. Basis of Assumptions

5.1. As much as practicable, the valuation of HMO Agreement reserves shall be based on the Company's actual historical experience and/or industry data. Any deviations and the use of professional judgment must be supported by a strong rationale and must be documented in Section C of the Actuarial Valuation Report, as described in Annex A.

5.2. Membership Fee used in the calculation of the HMO Membership Fee Reserves shall be net of taxes and commissions.

5.3. The Actuary shall gather information from the Underwriting Department or its equivalent to provide information on the following areas: market outlook, changes in pricing levels, changes in the mix of business, renewal rates and changes in terms and conditions.

5.4. The Actuary shall also gather information from the Claims Department or its equivalent to provide information on the following areas: typical claims process from notification to settlement, claims expense inflation, operational changes in the claims function, delays in reporting of claims that may affect the projection of liabilities, and changes in initial estimates.

6. Valuation Methodology

6.1. Where the fixed pre-paid fee is in the form of a pre-agreed membership fee, the liability shall be the HMO Agreement Reserves which is composed of the Membership Fee and Claim Reserves both determined using best estimate assumptions, with an appropriate Margin for Adverse Deviation (MfAD) for expected future experience.

6.2. The Actuary shall be responsible in determining the level of HMO Agreement reserves using basis no less stringent than that prescribed in Sections 7 to 10 below.

6.3. Where the fixed pre-paid fee is a combination of the enrolment fee, administrative fee and a fund under an ASO Endorsement, the liability shall be the ASO Fund Liabilities and the Unearned Administrative Fee Reserves (UAFR).

7. Membership Fee Reserves

7.1. Membership Fee Reserves shall be determined as the higher of UMFR and URR.
7.2. The UMFR shall be calculated using 1/365\textsuperscript{th} method.

7.3. URR shall be calculated as the best estimate of future claims and expenses, with MfAD as computed in Section 9. This best estimate relates to expected future claim payments and related expenses to be incurred after the valuation date, arising from future events.

7.3.1. Expected future claims shall include all claims which might occur during the unexpired period.

7.3.2. Expected future expenses shall include Agreement maintenance expenses and claims management expenses (i.e., direct and indirect claims settlement costs).

7.4. A computation should be performed to determine whether the URR required is greater or smaller than the UMFR. If the URR is greater, then the difference should be booked as an additional reserve on top of the UMFR.

8. Claim Reserves

8.1. Claim Reserves shall be calculated as the sum of D\&U Claims, ICOS, Resisted Claims, Claims Handling Expense Reserve and IBNR, with MfAD as computed in Section 9.

8.2. D\&U Claims, ICOS, and Resisted Claims shall be based on actual claims reported but have not yet been settled as of valuation date. The Company shall ensure integrity of the data inputs as well as minimize uncertainties in the claims processing, subject to paragraph 4.2.

8.3. The Claims Reserves shall be calculated based on standard actuarial projection techniques or combination of such techniques, such as but not limited to the following methods: Development Method, Tabular Method, Exposure Method, and Loss Ratio Method.

The Actuary shall determine the appropriateness of the methodology considering the characteristics of the data and the maturity of the business.

8.4. Claim Reserves shall also include a provision for Claims Handling Expense Reserves, which covers the estimated expenses of settling all claims, both reported and unreported, outstanding as of valuation date.

8.5. The Actuary shall ensure the reliability of the expected loss ratios by obtaining estimates from various sources, such as underwriters, the business plan, pricing actuaries, market statistics, or from a historic view of profitability and loss ratios.
8.6. In valuing the Claim Reserves, the Actuary should consider other factors such as but not limited to: varying expense structure, operational changes in claims management, underwriting changes such as business mix and membership fee changes, changes in claims handling process, and external conditions.

8.7. To ensure sufficiency of reserves, the Actuary shall conduct a back-testing exercise of the Claims Reserves by comparing the previous year’s Claims Reserves of expected current year claim developments, with actual current year claim developments. The results of such shall be documented in Section D of the Actuarial Valuation Report, as outlined in Annex A. In cases where the Claims Reserves was proven insufficient to cover actual claims development, the Actuary shall revisit the assumptions for Claims Reserves valuation and document the rationale for this deterioration.

9. Margin for Adverse Deviation

9.1. The actuary shall estimate the MfAD based on applicable statistical methodologies such as but not limited to Bootstrap Method, Mack Method or combination of such methodologies to bring the actuarial best estimate of HMO Agreement Reserves at the 75th percentile level of sufficiency. The data, basis and analysis in the determination of the MfAD shall be included in Annex A.

9.2. The purpose of the MfAD is to allow for inherent uncertainty of the best estimate of the HMO Agreement Reserves and to consider the variability of claims experience in the best estimate.

10. Reserves under an ASO Endorsement

10.1. ASO Fund Liabilities is the aggregate of the Previous period ASO Fund less Fund Withdrawals (FW) plus additional contributions to the ASO Fund.

10.2. Unearned Administrative Fee Reserves (UAFR) shall be calculated using 1/365th method.

10.3. The ASO Fund for the given period must at least be equal to the ASO Fund Liabilities.

10.4. The minimum ASO Fund Liabilities for each ASO Account must be zero (0). If the ASO Fund Liabilities for an ASO Account is negative, it should be transferred to Due from ASO Account. The negative ASO Fund Liabilities of an Account should not be used to reduce the Aggregate ASO Fund Liabilities.

10.5. The Projected Fund Withdrawals shall be calculated using the same principles in the calculation of the Claims Reserves (refer to Sections 8 and 9) and a schedule shall be provided for in the Actuarial Valuation Report.
11. Actuarial Valuation Report

11.1. The Actuary shall prepare an actuarial valuation report to be submitted to the IC. The actuarial valuation report, at a minimum, shall contain the following information (see Annex A for details):

A. Scope of Review
B. Data Requirements
C. Valuation Methodologies and Assumptions
D. Analysis of Experience
E. Valuation Results & Discussion
F. Certification by the Actuary
G. Certification by the Chief Finance Officer
H. Certification by the Chief Executive Officer (CEO) or Responsible Officer

11.2. The Certifications to be provided by the Actuary, the Chief Finance Officer (CFO) and the Chief Executive Officer (CEO) or Responsible Officer shall be duly notarized.