



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

NOTICE TO THE PUBLIC
22 March 2016

**EXPOSURE DRAFT ON THE PROPOSED CIRCULAR ON THE
MINIMUM CAPITALIZATION, FINANCIAL CAPACITY AND OTHER
REQUIREMENTS OF HEALTH MAINTENANCE ORGANIZATIONS (HMOs)**

The Insurance Commission hereby posts for the information of all concerned the Exposure Draft on the proposed Minimum Capitalization, Financial Capacity and Other Requirements of HMOs. The proposed Circular is intended to regulate, supervise, and monitor the operations and management of all HMOs doing business in the Philippines.

To promote the participation of the public, the Insurance Commission is openly soliciting comments and suggestions from all interested persons.


All interested persons may submit their written comments and suggestions to the Pre-Need Division of the Insurance Commission with office address at Insurance Commission Bldg., 1071 United Nations Ave., Manila. Such written comments and suggestions may also be submitted electronically through email to mds.laygo@insurance.gov.ph or gp.ocampo@insurance.gov.ph.

Comments and suggestions made through phone call or text messages would not be entertained and shall be disregarded automatically.

The deadline for submission of the written comments and suggestions shall at 3:00 P.M. on 28 April 2016. Late submission shall no longer be considered.

The Exposure Draft Circular which is attached hereto will be posted on the Insurance Commission website (www.insurance.gov.ph).

Be guided accordingly.


EMMANUEL F. DOOC
Insurance Commissioner



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

Circular Letter (CL) No.:	
Date:	
Supersedes:	None

CIRCULAR LETTER

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

**SUBJECT : MINIMUM CAPITALIZATION, FINANCIAL CAPACITY
AND OTHER REQUIREMENTS OF 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. 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;
- c. 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
- d. 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.
- e. 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:

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 (P10,000,000.00).

No existing licensed HMO company shall be allowed to decrease its paid-up capital, unless with prior written approval from the Commission.

- 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 (P100,000,000.00). All HMOs without existing clearance to operate from Department of Health as of

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

December 31, 2015 or have ceased operations for at least a year, shall be considered as new applicant.

- c. In case of foreign HMO branch office and foreign Insurance Company applying for HMO license, no license shall be issued unless the branch has deposited an amount of at least One hundred Million Pesos (P100,000,000.00) in its books and maintains a net asset of equivalent amount.
- d. Licensed life or non-life insurance company, mutual benefit associations (MBAs), insurance brokers and other entities with HMO-like business must set up a separate entity and apply for a separate HMO license.
- e. The Commission may increase such minimum paid-up capital and networth requirement to an amount which, in its opinion, would reasonably assure the safety of 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 two million pesos (P2,000,000.00) or twenty percent (20%) of HMO's paid-up capital, whichever is higher.
- b. The deposit shall be considered asset of the HMOs in the determination of networth.
- 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 members (covered persons) and to assure continuation of health care services to covered persons of HMOs.
- f. The Commission may increase, reduce or eliminate the deposit requirement, which in its opinion would reasonably assure the safety of 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

HMOs that exceed the above maximum gross membership fees shall be fined equivalent to ten percent (10%) of the excess membership fees amount which shall be paid within ten (10) days from receipt of the advice from the Insurance Commission plus P500.00 for every calendar day of delayed payment.

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

1.4. Network

All HMOs must have a network which should be not less than its paid up capital.

1.5. Solvency and Liquidity

- a. 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 network 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 ten (10) 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) and Circular Letter No. 24-2005B dated September 2, 2005.

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.

- b. 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, cash equivalents, investments classified as current assets, and receivables identified and verified by the IC as current asset.

Current liabilities are composed of claims payables, health fund/ administrative services only (ASO), reserves, and other obligations payable within one-year.

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) and Circular Letter No. 24-2005B dated September 2, 2005.

1.6. Revaluation of Assets

The appraisal increment on property, plant and equipment (PPEs) is not allowed, unless with prior written approval by the Commission.

1.7. Granting of Loans

- a. Granting of secured loans/advances by HMOs may be allowed subject to the approval of the Insurance Commission.

Unsecured loan/advances shall not be considered in the determination of HMO's financial condition.

1.8. Declaration of Dividends

The company shall notify this Commission thirty (30) days after the declaration of dividends. Otherwise, HMO shall be billed ₱5,000.00 as basic fine plus ₱500.00 for every calendar day of delay.

2. Independent Director Requirements

All HMOs are required to appoint at least two (2) independent directors or twenty percent (20%) of the number of directors, whichever is higher.

The term of an independent director shall be limited by the provisions of Department Order No. 054-2015, prescribing the "Fit and Proper Rule".

3. Maintenance of Corporate Website

3.1. All HMOs are required to maintain a company website.

3.2. Mandatory Content

The following information shall be published in the HMO Company's website:

- a. Audited Financial Statement filed with the BIR (must be published within 30 days after filing with the BIR) and latest General Information Sheet (GIS)
- b. Updated List of Board of Directors and Executive Officers
- c. Updated List of Names: Locations of Hospitals/ Clinics/ Facilities owned or controlled by the HMO and
- d. Address of main office and branches of HMO
- e. Current Clearance to Operate (CTO) or Certificate of Authority (CA), as the case may be

3.3. Penalty

HMOs that fail to maintain a website shall be fined the amount of P50,000.00. No license shall be issued and renewed without complying with the mandatory website requirement.

The following penalties shall also be imposed:

<u>Violation</u>	<u>Basic Penalty</u>	<u>Monthly Penalty</u>
Non-posting of mandatory content	10,000.00	5,000.00
Incomplete posting	5,000.00	2,000.00

4. Submission of Reportorial Requirements

4.1 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. Copy of all Benefit Package
- c. Copy of all Current Service Agreement (pdf copy)
- d. Listing of Terminated Service Agreement
- e. Actuarial Study of the Claims Experience and Operational Results
- f. Corporate Records:
 - f.1 Latest General Information Sheet filed with the SEC.
 - f.2 List of Current Members of Board of Directors and Officers, their respective addresses and position.
 - f.3 Copy of the latest Articles of Incorporation and By-Laws.
 - f.4 Copy of Minutes of Meetings of the Board, including a copy of the Board Resolutions made during the year.

4.2. Quarterly Reportorial Requirements for ATR and Network

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 July 2016.

- a. Interim Financial Statement (IFS)
- b. Computation of ATR and Network

Starting 2017, the IFS, ATR and Network 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

4.3 Filing Fee and Penalty

A filing fee of ₱20,000.00 plus ₱200.00 representing Legal Research Fund (LRF) shall be imposed upon submission of items under 4.1 of this Circular and ₱5,000.00 for every calendar day of delayed submission.

HMOs who fail to submit items under 4.2 of this Circular based on the respective deadlines shall be subjected to a basic fine of ₱5,000.00 and ₱500.00 for every calendar day of delayed submission.

4.4 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 ₱5,000.00 and ₱500.00 for every calendar day of delayed payment.

5. Certificate of Authority

Clearance to Operate (CTO) shall be renewed upon its expiration and the Certificate of Authority (CA) shall be issued to HMOs in a stock corporation upon application and payment of ₱50,000.00 annually.

6. Effectivity

This Circular Letter shall be effective immediately.

EMMANUEL F. DOOC
Insurance Commissioner