



Circular Letter No.:	2023-24
Date:	25 October 2023
Amends:	Circular Letter No. 2016-41

## CIRCULAR LETTER

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

**SUBJECT : REGULATORY RELIEF ON THE LIQUIDITY REQUIREMENT UNDER CIRCULAR LETTER NO. 2016-41**

**WHEREAS**, Executive Order (“EO”) No. 192 (s. 2015)<sup>1</sup> transferred the regulation and supervision over Health Maintenance Organizations (“HMOs”) from the Department of Health to the Insurance Commission;

**WHEREAS**, Section 4 of EO No. 192 authorizes the Commission to issue rules and guidelines with respect to the establishment of HMO minimum capitalization, net worth, reserve funds and security deposit requirements;

**WHEREAS**, Circular Letter (“CL”) No. 2016-41<sup>2</sup> requires all HMOs to comply with the following financial capacity and solvency requirements, as follows:

- a. Paid-up Capital;
- b. Deposit Requirement;
- c. Risk-Based Capitalization;
- d. Net Worth Requirement; and
- e. Liquidity Requirement.

**WHEREAS**, Section 1.5 of CL No. 2016-41 requires HMOs to comply with the liquidity requirement by maintaining an Acid Test Ratio (“ATR”) of at least 1.0 at all times;

**WHEREAS**, the HMO industry suffered an unprecedented net loss of ₱1.44 billion based on the 2022 HMO Industry Performance Report published by the Commission;

**WHEREAS**, there has been continued surge in both costs per claim and number of availments in 2023;

<sup>1</sup> 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.”

<sup>2</sup> Entitled, “Minimum Capitalization and Financial Capacity Requirements for HMOs.”

**WHEREAS**, the financial condition of several HMOs was heavily impacted by the 2022 loss and the continuing increase in health care costs in 2023, making it difficult for them to maintain the level of liquidity required by the Commission;

**WHEREAS**, the Commission recognizes the need to provide ample time for the HMOs to recover;

**NOW, THEREFORE**, pursuant to the powers granted to this Commission under Section 4 of EO No. 192, the following are hereby promulgated:

**SECTION 1. LIQUIDITY REQUIREMENT**

HMOs shall at all times maintain an Acid Test Ratio (“ATR”) of at least 0.75. The following regulatory actions shall apply:

<b>ATR</b>	<b>Regulatory Action</b>
0.75 ≤ ATR < 1.00	<p>HMOs shall be required to submit, together with the Interim Financial Statements (“IFS”) as required under Section 2.2 of CL No. 2016-41, <b>soft copies</b> of the following:</p> <ol style="list-style-type: none"> <li>1) Schedule of claims payable as of the end of the reporting period using the template in <b>Annex “A”</b>;</li> <li>and</li> <li>2) Claims settlement plan.</li> </ol> <p>HMOs shall then update, on a monthly basis, the same claims schedule above with the information on claims that are already settled. The updated claims schedule must be submitted through e-mail to <a href="mailto:hmoifs@insurance.gov.ph">hmoifs@insurance.gov.ph</a> on or before the 15th day after each month.</p> <p>Further, for verification purposes, proof of payment of all valid claims (e.g. OR, validated deposit slips) shall be made readily available upon request of the Commission.</p> <p>If upon examination of the submitted documents, it is found out that there were delays in the settlement or non-payment of claims, the regulatory action for HMOs with ATR of less than 0.75 shall be implemented.</p>
ATR < 0.75	<p>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 or infuse cash to be contributed proportionately by the stockholders on record within thirty (30) days from receipt of the advice from the Insurance Commission. Otherwise, the HMO must show cause in writing why no regulatory action shall be taken by this Commission against the HMO and its officers for non-compliance thereof.</p>

For purposes of declaration and/or distribution of dividends, HMOs shall at all times meet the regulatory measures under CL No. 2016-41, without the regulatory relief provided herein, as required under CL No. 2021-02.<sup>3</sup>

## **SECTION 2. APPLICABILITY**

This rule shall be applied to the verification/examination of the 2022 and 2023 Audited Financial Statements and to the analysis of the Interim Financial Statements with reporting dates from 30 September 2023 until 30 September 2024, unless extended or changed as deemed necessary by this Commission.

This Circular shall take effect immediately.

  
**REYNALDO A. REGALADO**  
Insurance Commissioner



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<sup>3</sup> Entitled, "Revised Guidelines on the Declaration and/or Distribution of Dividends."