



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



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**IC SLIGHTLY RAISES HMOs' "ACID TEST RATIO"
REQUIREMENT AMID INDUSTRY RECOVERY**

The Insurance Commission (IC) on 10 October 2024 issued Circular Letter (CL) No. 2024-18 further extending the regulatory relief afforded to health maintenance organizations (HMOs) as regards the regulator's Acid Test Ratio (ATR) prudential requirement.

CL No. 2024-18 was issued amid year-on-year improvements in the industry's Total Net Income, Total Assets, and Total Liabilities as of the quarter ending on 30 June 2024 (Q2 2024) vis-à-vis the quarter ending on 30 June 2023 (Q2 2023).

Under the new CL, the ATR requirement was raised to 0.9 from 0.75 per the CL No. 2023-74.

An HMO's ATR is computed by dividing the company's Current Assets, which are composed of cash and other assets that are reasonably to be realized in cash or intended for sale, and its Current Liabilities, comprising of claims payables, reserves, health fund / administrative services only (ASO) liability, and other obligations.

"The new Circular Letter was issued to afford the industry more time to recover from the lingering effects of the unprecedented 2022 net loss of ₱1.44 billion and the 2023 increases in healthcare costs and utilization rates that severely impacted the financial condition of several HMOs," said Insurance Commissioner Reynaldo A. Regalado.

The HMO industry recorded a Total Net Income of ₱636.6 million in Q2 2024, which constitutes a 153.67% increase from the industry's Total Net Loss of ₱1.19 billion in Q2 2023. This is driven by the 21.93% increase in Total Revenue from ₱31.78 billion in Q2 2023 to ₱38.75 billion in Q2 2024 vis-à-vis the 15.62% increase in the industry's Total Expenses from ₱26.23 billion in Q2 2023 to ₱30.33 billion in Q2 2024.

The HMO's Total Assets also grew by 12.16% from ₱61.76 billion in Q2 2023 to ₱69.26 billion in Q2 2024, driven by increases in Membership Fee Receivables (Net), Cash Equivalents, and Due from ASO Accounts (Net).

The Total Invested Assets of the industry likewise increased by 6.45%, year-on-year, from ₱20.01 billion in Q2 2023 to ₱21.31 billion in Q2 2024, which was mainly attributed to significant 56.98% rise in Cash Equivalents. The HMOs' Total Investment Assets now account for 29.15% of their Total Assets.

The significant 24.23% increase in Membership Fee Reserves and the 26.49% increase in Claims Reserve, year-on-year, are the primary drivers behind the 13.33% rise in Total Liabilities of the HMO industry, which climbed from ₱51.46 billion in Q2 2023 to ₱58.32 billion in Q2 2024.

"Our analysis shows that even though the industry recorded a net income of ₱636.6 million in Q2 2024, this is still far from recovering the cumulative losses the industry sustained in 2022 and 2023 amounting to ₱5.71 billion. This is why we extended the regulatory relief from the 1.0 ATR requirement under CL No. 2016-41, albeit with a marginal increase from 0.75 to 0.9, which we believe reflects the industry's progress in terms of profitability while still acknowledging that they are still in recovery," added Commissioner Regalado.

Under the new CL, an HMO is required to submit a schedule of claims payable and claims settlement plan in addition to its Interim Financial Statements (IFS) if its ATR is found to be between 0.9 and 1.0. If the ATR is below 0.9, the HMO will be required to infuse cash or collect its long-term receivables and/or liquefy non-current assets to improve its financial position.

The IC had also ordered in the new CL that, insofar as the purposes of declaration and / or distribution of dividends are concerned, HMOs shall comply with the standards set forth in CL No. 2016-41, particularly that no HMO shall declare or distribute such dividends unless it shall have met the regulator's minimum unimpaired paid-up capital and net worth requirements.

CL No. 2024-18 shall be applied in the regulator's examination of the HMOs' 2023 and 2024 Audited Financial Statements, as well as in the analysis of their respective IFS with reporting dates from 30 September 2024 until 30 September 2025, unless the IC orders otherwise.

"Right now, the Commission is also looking at revising the capitalization requirements for HMOs to ensure responsiveness to the needs of its members but at the same time ensuring viability of the industry, given the HMOs' role in assisting Filipinos with healthcare needs," Commissioner Regalado said.

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