Republic of the Philippines
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INSURANCE COMMISSION
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BAGONG PILIPINAS

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NEW TIERING SYSTEM INTRODUCED FOR HMOs' FINANCIAL CAPACITY REQUIREMENTS

The Insurance Commission (IC) recently issued Circular Letter (CL) No. 2025-11 with the subject "Revised Minimum Capitalization, Financial Capacity, and Other Regulatory Requirements for HMOs", which features a new net worth tiering system for health maintenance organizations (HMOs).

Under the new CL, Tier A shall be for HMOs with net worths of over ₱500 million, B for over ₱100 million to ₱500 million, C for over ₱50 million to ₱100 million, and D for ₱50 million and below. Regardless of tier, however, existing HMOs shall respectively maintain net worths not lower than their actual paid-up capital.

Meanwhile, CL No. 2025-11 maintains the existing requirements under CL No. 2016-41 for existing domestic HMOs to have a paid-up capital of at least ₱10 million; new HMO entrants to have at least ₱100 million; and community-based and cooperative HMOs shall maintain at least 50% of what is prescribed for regular HMOs.

"There is a need to update the HMO industry's prudential requirements due to its significant growth in membership and services. Since HMOs now have a huge role in the nation's healthcare system, the regulatory framework must adjust to ensure financial stability, operational efficiency, and inclusivity in delivering healthcare to a broader population," said Insurance Commissioner Reynaldo A. Regalado.

On risk-based capital requirements, the tiering system determines the maximum gross membership fee (GMF) risk an HMO may assume. Tier D may undertake GMF risks up to 3 times its net worth; C up to 5 times; B up to 10 times; and A shall have no GMF risk limit. GMF was defined as the "total annual fees arising from full-risk HMO agreements of the pre-agreed set of health services".

CL No. 2025-11 states that HMOs shall maintain security deposits of at least 25% of their respective actual paid-up capital or ₱5 million, whichever is higher. The security deposits shall only be invested in bonds or other debt instruments of the National Government, its political subdivisions or instrumentalities including the Bangko Sentral ng Pilipinas (BSP), and government-owned or -controlled corporations (GOCCs), with maturities of at least one (1) year from the date of transfer to the IC.

Under the new CL, the Acid Test Ratio (ATR) required of HMOs, which is computed as the quotient of an HMO's Quick Assets vis-à-vis its Current Liabilities, was also stratified. HMOs belonging to Tiers A and B shall be required to maintain an ATR of at least 1.0, C at least 1.75, and D at least 2.0. "Quick Assets" was defined as cash or other assets reasonably realizable in cash or intended for sale or consummation within 12 months after a given reported period. "Current Liabilities", on the other hand, are composed of certain obligations reasonably expected to be settled within the normal business operating cycle.

Further, only HMOs belonging to Tiers A, B and C may invest in real property.

CL No. 2025-11 also allows for declaration of dividends by Tiers A and B without prior approval, subject to post-distribution reportorial requirements. Tiers C and D must first secure the Commission's prior approval before dividend declaration.

"The revision of the HMO industry's capitalization and financial capacity requirements is borne out of the Commission's commitment to responsiveness in its supervision; and, at the same time, to consumer protection by ensuring that HMOs shall always have the liquidity needed to address its members' needs," said Commissioner Regalado.

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