



## **MILK Brief #14: The Business Case for Life Microinsurance in the Philippines: Initial Findings<sup>1</sup>**

### **Introduction**

Life microinsurance has grown quickly and is well established throughout the Philippines. As a result, the business case is widely assumed to be strong. The MILK project is assessing the accuracy of this assumption through a careful exploration of the programs and products in the market. In an effort to shed greater light on the financial successes, challenges, and trends in this market, we are examining a cluster of five life microinsurance programs in the Philippines. These were chosen to be representative of the principle business models operating in this market. Despite their contrasting business models, each offered substantially similar life products.

Microinsurance in the Philippines is rooted in ties to a robust microfinance sector and a well-established cooperative sector. Supportive regulations, particularly the legislation enabling Mutual Benefit Associations (MBAs), which are standalone, non-profit insurers of the poor, have helped spur growth. Our study group covers over 10 million lives in the Philippines (about 10% of the population) with credit life, group life, personal accident and funeral coverage. Distribution takes place primarily through the partner-agent model, employing microfinance institutions (MFIs) and cooperative channels.

Life microinsurance is among the simplest types of microinsurance in terms of product design. It is also a product line for which the business case is often seen as the clearest. Still, our analysis reveals unexpected complexity on both fronts. Seemingly “simple” products have coverage that is in fact quite complex, and the seemingly “clear” business case can be ambiguous, especially as commercial carriers have expanded in this specialized market.

This paper provides initial findings from MILK’s original research, and is based on the analysis of financial results provided by the firms themselves and intensive interviews with management over the last year. Specifically, it summarizes our initial insights into (1) the current strength of the business case for life microinsurance in the Philippines which is supported by robust growth in premium and lives covered; (2) some less positive market trends including an uptick in loss ratios and difficulties that new market entrants are experiencing, testing the relative strengths of different business models (i.e., MFI based, Cooperatives and commercial insurers); and (3) emerging client demand as evidenced by shopping for life insurance by the poor in what heretofore has been a distribution driven market. In working to answer these broad questions, however, many more questions have arisen, which we are continuing to explore.

A more comprehensive report with complete data and findings will be published in late 2013. At that time we will aim to resolve some of the open questions raised in this brief.

### **Programs Studied**




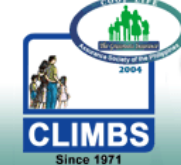

Our analysis focuses on five different programs: four insurers and one large intermediary (summarized in Table 1 below). These programs represent the range of models common in the market. CARD-MBA and TSPI-MBA are affiliated with established MFIs. CLIMBS is a cooperative insurer, and PPLIC is a commercial carrier. Finally, MicroEnsure, the global microinsurance broker with a significant presence in the Philippines, reflects the intermediary model.

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<sup>1</sup> This MILK Brief was written by Richard Koven, Michael J. McCord, John Wipf, and Emily Zimmerman (September 2012). The authors greatly appreciate the openness and assistance provided by the partners and their representatives.



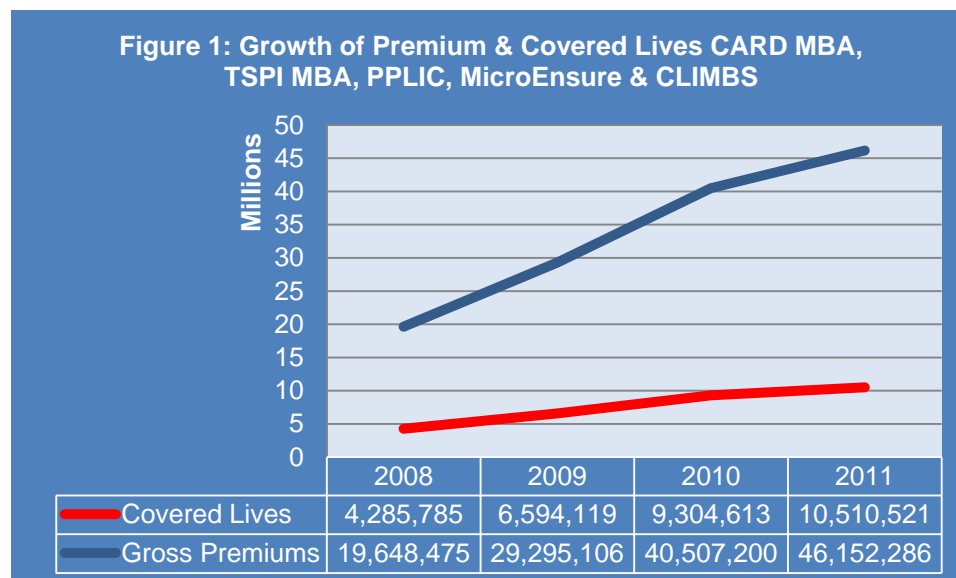
**Table 1: Summary of Programs**

 <p>Tulay sa Pag-unlad, Inc.</p>	<p>Tulay sa Pag-Unlad, Inc. (TSPI) is a non-profit MFI that provides group and individual loans to small business owners, farmers, and others throughout the Philippines. It offers mandatory life insurance to borrowers, as well as a voluntary product to non-borrowers through its affiliate TSPI Mutual Benefit Association. The MBA is Manila based, was founded in 2007 and now covers over 500,000 lives.</p>
	<p>The Center for Agriculture and Rural Development, Inc. (CARD) was established in 1986 as a non-profit, non-political foundation. CARD now offers a variety of financial products, including savings, loans, and insurance, through the CARD Mutually Reinforcing Institutions (or CARD MRI) family. CARD MBA is based in San Pablo City. Established as an informal program in 1994 and formally incorporated as an MBA in 1999, it now covers over 7 million lives. Distribution is through its parent MFI and includes mandatory credit life as well as life/disability coverage that is included with all loans plus an endowment (or provident fund).</p>
	<p>The Philippine Prudential Life Insurance Company, Inc. (PPLIC) offers a variety of different life insurance products to clients of MFIs, rural banks, and other organizations in the Philippines. PPLIC, also based in Manila, entered the microinsurance market in 2010 and now covers approximately 60,000 lives. Microinsurance products, which comprise less than 5% of the company's book of business, are customized for each MFI.</p>
	<p>CLIMBS Life and General Insurance Cooperative is a composite insurance cooperative owned by more than 2,000 primary cooperative and federations throughout the Philippines. CLIMBS was founded in 1971, virtually all (98%) of its 1.1 million covered lives are among the low income population.</p>
	<p>MicroEnsure first began operating in the Philippines in February 2007. It is headquartered in Iloilo with offices in Cebu and Manila and covers 2 million lives through its various programs. MicroEnsure is a broker, specializing in microinsurance. In the Philippines it distributes life insurance and other products, for Malayan Insurance and SunLife Grepa, primarily through MFIs such as TSKI. MicroEnsure offers a range of products including various types of life, health, and weather covers, as well as insurance for natural disasters</p>

## Data Findings & Analysis

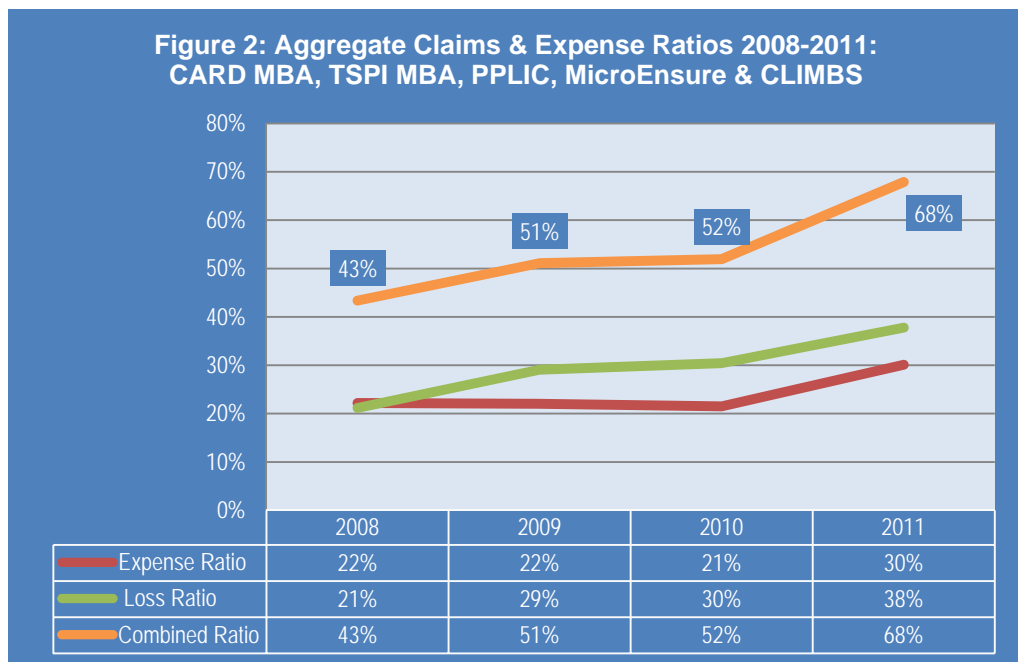
We reviewed financial data from these five microinsurance (MI) programs covering the years 2008-2011, and found:

- **Robust growth** observed with premiums written and lives covered more than doubling over the study period with a compound annual growth rate (CAGR) of over 30% (see Figure 1).





- Firms exhibit a range of **loss ratios** averaging 31% over a five year period (40% when weighted by premium / firm) and expense ratios of 25% (28% when weighted by premium / firm). The commercial insurer was excluded from this calculation because of their distortionary effect related to dramatic outlying loss ratios. Loss ratios varied significantly from a high of 92% to a low of 14%. MBAs generally had lower loss ratios and insurers (including the insurer working with MicroEnsure) higher loss ratios.
- Evidence of **increases in loss ratios** during the study period noted; in four of five programs loss ratios increased every year.
- Median rate per 1,000 of cover for popular selected plans is USD 1.93 / 1,000 / Year; when weighted by coverage type (Life/AD&D/Total Disability) median rate is USD 5.385 / 1,000 / Year (see Figure 2).
- Median coverage for the same popular selected plans is USD 3,873 and median premium charged is USD 7.59 per year. Again coverage and premiums charged varied by program (see Table 2).



## Initial Observations & Conclusions

### Overall Business Environment

- All of the programs we studied had experienced vigorous growth rates in their life insurance portfolios and four of five were profitable.
- Perhaps a confluence of forces in the Philippines is at work: growing economy (4.5% average GDP growth rate 2001-2010), growing and increasingly competitive life industry (23.5% increase in life premiums for 2009/2010, the latest year available), and encouraging regulation for MI.
- The positive environment for growth is similar to India with respect to growing economy and encouraging regulations, although the Philippines does not require its insurance carriers to cover “rural and social” sectors as does India. The presence of MBAs is distinctive to the Philippines.

### Mutual Benefit Associations

- MBAs thrive despite carrying a 50% load in their pricing for a membership deposit which has the effect of making upfront premiums more expensive (generally the deposit is refundable after a period of participation, e.g., three years).
- MBAs appear to be very well (even overly) capitalized.



- MBA growth is tied in many respects to sponsor MFI growth; attempts to reach out to the public at large have been constrained by regulations, as MBAs are limited to marketing to members and their families.
- Although four year growth was robust, both MBAs in our study group saw decreased (reversed) growth in 2011. One, TSPI, subsequently re-focused on its core MFI business and is therefore placing less emphasis on promoting voluntary MI products.

#### Commercial Insurers

- We find evidence of investment in MI life expansion by commercial carriers such as Pioneer, Malayan and PPLIC.
- PPLIC entered the MI market with aggressive pricing in order to increase its market share. As such, it has experienced higher initial loss ratios which it is aiming to improve with adjusted renewal rates. To date, it has not made significant sales even with a price point lower than its competitors.
- MicroEnsure has had good success in the Philippines (and elsewhere) facilitating and sustaining commercial carriers' presence in the microinsurance market.

#### Cooperatives

- CLIMBS exhibits higher prices and higher loss ratios than the others in the study group, reflecting a different business model with primarily voluntary enrollments
- CLIMBS has some unique abilities to differentiate itself from competition such as member dividends and group experience refunds. In addition, CLIMBS offers an opportunity for all distributors to invest in the company and to partake in governance if the distributor is a co-operative.

#### Competition and Demand

- We find anecdotal evidence of microinsurance competition among MBAs and between MBAs and commercial insurers based on the overall components of the products. Other than with PPLIC, no evidence of this increased competition as of yet reflected in lower priced products.
- Underlying premium rates vary significantly by program, benefit schedule and business model.
- Programs provide accidental death and disability (AD&D), total disability benefits and other benefits to distinguish basic term life cover.
- Mandatory coverage predominates as most are tied to a loan or a savings account or employment
- There is anecdotal evidence of developing consumer demand; in CARD Bank, Inc. for instance, members open savings accounts and then voluntarily purchase insurance from CARD MBA, the affiliate.

#### Other

- From program to program the methodology for counting covered lives and policies in force varies making it difficult to evaluate unit economics.<sup>2</sup>

### **Summary of Product & Price Comparison**

We compared the prices and coverage of common life microinsurance products of four large providers in the Philippines: TSPI, CARD MBA, CLIMBS, and PPLIC (MicroEnsure, which is a broker, was not included in this comparison) in order to understand the relationship of their products and their pricing.<sup>3</sup> These products are summarized in Appendix 1. We compared them by adding the total benefits available under each and calculating the annual rate for each PHP 1,000 of coverage.<sup>4</sup>

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<sup>2</sup> MILK Discussion Note #3 presents our proposed approach to counting policies.

<sup>3</sup> These products were selected from a larger pool of products offered by these providers as those most comparable to each other in terms of coverage and client base.

<sup>4</sup> We made a number of assumptions and simplifications, listed in Appendix 2, about the products and the covered clients for purposes of this analysis.



Our examination (see Table 2) reveals that the median coverage volume for the four products examined was USD3,873 with a median premium of USD7.59 per year and a median underlying rate of USD1.93 / 1,000 / year.

In our analysis of underlying rates we eliminated the 50% member equity contribution that the MBAs are legally required to return to their members (again deposit may be forfeited if member does not participate for a minimum period of time). This membership deposit doubles the actual “premium” that the members pay, although it is often refunded.<sup>5</sup>

A few interesting observations arise from the products and rates comparison below (see Table 2)

- The two MBAs’ underlying rates look virtually identical at first but the products varied significantly in how much AD&D and TDB are included. As such we weighted the AD&D and TDB coverage at 10% to reflect the equivalent actuarial value relative to the life insurance benefit. In doing so we determined that the underlying rates differed significantly from program to program.
- PPLIC’s rates are materially below the rest of the group. This may mean that it has underpriced the risk and may explain, at least in part why its loss ratios are high. We also note that PPLIC excludes claims arising from pre-existing conditions while CARD MBA uses a phased-in benefit approach to mitigate adverse selection.
- The CLIMBS pricing is materially higher than the MBAs. Its product is explicitly developed for the true voluntary market, while the MBA products are essentially marketed as mandatory group coverage. In addition CLIMBS’ market has more males and may be older and therefore has a greater mortality rate as compared to the MBAs. Nonetheless, at least in part, the two-fold difference in price may be considered as the “cost” of moving from mandatory to voluntary life coverage.
- Although it has the highest premium charged at USD17.12 per year (including the 50% member equity charge in the MBAs prices), CARD MBA has by far and away the largest enrollment among the group, because these are mandatory products of their partner MFI. On the other hand, PPLIC has the lowest premium at USD6.62 and has not gained significant sales at that price point. While many factors are at work here, our investigation does not show evidence these players are competing with each other based on price. The product and price comparison that we conducted highlights the complexity of comparing the price and coverage of these products, which partially explains the lack of price competitiveness.

**Table 2: Product & Rates Comparison**

In USD <sup>6</sup>	Annual Premium	Combined Coverage Volume	Annual Rate / 1,000	Life Cover value	AD&D Cover Value	Disability Cover Value	Weighted Cover Value	Rate / 1000 Weighted Cover
TSPI	2.75	1,420	1.94	524	731	164	614	4.48
CARD	8.56	3,968	2.16	1,072	1,569	1,327	1,362	6.29
PPLIC	6.62	3,779	1.75	1,826	1,952	None	2,022	3.27
CLIMBS	11.42	5,936	1.92	685	2,968	2,283	1,210	9.43
<b>Median</b>	<b>7.59</b>	<b>3,873</b>	<b>1.93</b>	<b>879</b>	<b>1,761</b>	<b>746</b>	<b>1,286</b>	<b>5.38</b>

<sup>5</sup> Sec. 396. “Every outstanding membership certificate must have, after three full years of being continuously in force, an equity value equivalent to at least fifty per centum of the total membership dues collected thereon.” From PRESIDENTIAL DECREE NO. 612 - Ordaining and Instituting an Insurance Code of the Philippines, December 18, 1974. On Mutual Benefit Associations. Chapter VII: MUTUAL BENEFIT ASSOCIATIONS AND TRUSTS FOR CHARITABLE USES.

<sup>6</sup> Based on a conversion rate of 1PHP = 0.02397 USD, as of July 17, 2012. [www.XE.com](http://www.XE.com)



Our examination of the underlying rates offered by these four life microinsurance programs reveals how complex pricing can be for what most would regard as a simple product. For customers, shopping and comparing pricing is challenging, particularly since they must simultaneously consider the price and appropriateness of insurance and the credit product, and weigh the relevant aspects of each against the others. Business models, such as cooperative vs. commercial carrier seem to dictate pricing differential as much as anything. For now the pricing of life microinsurance in the Philippines continues to be as much a function of underlying distribution systems as anything else and less a function of supply and/or demand.

## Follow Ups

Our work in the Philippines has raised some interesting questions and there are a number of issues that MILK is further exploring in its comprehensive business case study of life microinsurance in the Philippines:

- **What is the cause of the upward trend in loss ratios?** Across all four insurers, we observe a steady increase in loss ratios over the study period (MicroEnsure appears to run counter as its life insurance loss ratios appear to be trending lower). We are investigating this trend further with the aim of understanding why it has occurred and whether it will continue.
- **Will the commercial carriers stick with this market despite some early disappointing results for some?** PPLIC, in particular is not yet achieving targeted growth in market share even though products appear to be underpriced for some of its accounts. We are exploring whether commercial insurers such as PPLIC are effective in gaining market share with low prices.
- **Will the MBAs be able to expand beyond their natural MFI constituencies?** MBAs look to achieve scale, which often requires reaching outside these affinity groups. We are exploring their attempts to do so and the challenges they face.
- **Will pricing on these life products come down in response to competitive pressure?**
- **Will low income Filipinos “shop” for life insurance coverage and prices in a competitive market?** Our analysis revealed that the differences between products are far less straightforward than might be expected, making comparison of price and coverage difficult. Further, the issues surrounding demand for microinsurance products are quite complex and demand is influenced by many factors beyond price and coverage.<sup>7</sup>
- Will the MBA business model, the commercial business model, and / or the brokerage model develop any inherent advantage (or disadvantage) going forward?

Microinsurance Learning and Knowledge (MILK) is a project of the MicroInsurance Centre that is working collaboratively to understand client value and business case in microinsurance. Barbara Magnoni leads the client value effort and Rick Koven leads the effort on the business case. Contact Michael J. McCord (mjmccord@microinsurancecentre.org), who directs the project, for more information.

<sup>7</sup> See MILK Brief #7 for an overview of these demand issues. MILK is exploring demand issues from both a business case and client value perspective.



## Appendix 1: Summary of Products Compared

Amounts are in PHP

Product	Client	Death Benefits	Accidental Death Benefits	Permanent Disability Benefits	Equity value
<b>TSPI: mandatory package for borrowers</b>  <i>mandatory</i>  <i>annual premium: 250<sup>8</sup></i>	Less than 1 year	<u>Client:</u> 2,500, plus loan balance, plus 10,000 funeral assistance <u>Spouse, Children:</u> 0	<u>Client:</u> 10,000, plus loan balance, plus 10,000 funeral assistance <u>Spouse:</u> 5,000 <u>Children:</u> 0	<u>Client:</u> Due to sickness: 0 Accident: 10,000 <u>Spouse, Children:</u> 0	50% of the total mandatory dues collected charge, if the member dies. If resigns, 20% surrender charge is deducted from equity value
	1-3 years	<u>Client:</u> 10,000, plus loan balance, plus 10,000 funeral assistance <u>Spouse:</u> 5,000 <u>Children:</u> 2,500		<u>Client:</u> 10,000 <u>Spouse, Children:</u> 0	50% of the contribution, with 2% p.a. interest, if the member dies or resigns for any reason
	More than 3 years		<u>Client:</u> 50,000, plus loan balance, plus 10,000 funeral assistance <u>Spouse:</u> 5,000 <u>Children:</u> 0		
<b>CARD: family package</b>  <i>mandatory</i>  <i>annual premium: 750 (15 per week collected 50 weeks per year)</i>	Less than 1 year	<u>Client:</u> Pre-existing condition: 2,000 Sickness after recognition: 6,000 <u>Dependent:</u> Pre-existing condition: 0 Sickness after recognition: 5,000	<u>Client:</u> 12,000 <u>Dependent:</u> 5,000	<u>Client:</u> Pre-existing condition: 2,000 Sickness after recognition: 6,000 Accident: 12,000 All: monthly benefits for 18 months (total 5,000-100,000) <u>Dependent:</u> Pre-existing condition: 0 Sickness after recognition: 5,000 Accident: 5,000 All: monthly benefits for 18 months (total 5,000-100,000)	50% refundable if the principal member drops out or dies
	1-2 years	<u>Client:</u> 10,000 <u>Dependent:</u> 5,000	<u>Client:</u> 20,000 <u>Dependent:</u> 5,000	<u>Client:</u> Sickness: 10,000 Accident: 20,000 Both: monthly benefits for 18 months (total 5,000-100,000) <u>Dependent:</u> 5,000 Monthly benefits for 18 months (total 5,000-100,000)	

<sup>8</sup> Annual premium is either 5 per week for 52 weeks (260 total), or 240 if paid up-front.

<sup>8</sup> The covered individual must undergo a 6 month observation period to be eligible for the monthly benefit in the case of sickness.



Product	Client	Death Benefits	Accidental Death Benefits	Permanent Disability Benefits	Equity value
	2-3 years	<u>Client:</u> 30,000 <u>Dependent:</u> 10,000	<u>Client:</u> 60,000 <u>Dependent:</u> 10,000	<u>Client:</u> Sickness: 30,000 Accident: 60,000 Both: monthly benefits for 18 months (total 5,000-100,000) <u>Dependent:</u> 10,000 Monthly benefits for 18 months (total 5,000-100,000)	
	More than 3 years	<u>Client:</u> 50,000 <u>Dependent:</u> 10,000	<u>Client:</u> 100,000 <u>Dependent:</u> 10,000	<u>Client:</u> Sickness: 50,000 Accident: 100,000 Both: monthly benefits for 18 months (total 5,000-100,000) <u>Dependent:</u> 10,000 Monthly benefits for 18 months (total 5,000-100,000)	
<b>PPLIC – Plan 1</b> <i>Mandatory</i> <i>annual premium: 290</i>	Married, 4 dependents	<u>Client:</u> 25,000, plus 5,000 burial benefit <u>Spouse:</u> 15,000, plus 5,000 burial benefit <u>Child:</u> 5,000, plus 5,000 burial benefit	<u>Client:</u> 25,000, plus 2,500 medical reimbursement, <sup>9</sup> plus 5,000 burial benefit <u>Spouse:</u> 15,000, plus 1,500 medical reimbursement, plus 5,000 burial benefit <u>Child:</u> 5,000, plus 500 medical reimbursement, plus 5,000 burial benefit	na	na
	Single, 4 dependents	<u>Client:</u> 25,000, plus 5,000 burial benefit <u>Parents:</u> 15,000, plus 5,000 burial benefit (each) <u>Siblings:</u> 5,000, plus 5,000 burial benefit	<u>Client:</u> 25,000, plus 2,500 medical reimbursement, plus 5,000 burial benefit <u>Parents:</u> 15,000, plus 1,500 medical reimbursement (each), plus 5,000 burial benefit <u>Siblings:</u> 5,000, plus 500 medical reimbursement, plus 5,000 burial benefit	na	na
<b>CLIMBS: Group Life &amp; Accident with Fire Insurance (GLAFI)</b> <i>voluntary</i> <i>annual premium: 500</i>	Plan 2	<u>Client:</u> 30,000	<u>Client:</u> 130,000	<u>Client:</u> 100,000	na

<sup>9</sup> PPLIC medical reimbursement is paid for any hospitalization resulting from an accident (whether the insured dies or not).





## Appendix 2: Assumptions and Simplifications for Product Comparison

### Assumptions about the policyholder and family:

1. We assumed that policyholders' families include a spouse and 3 children based on statistics from participants' databases.
2. We assumed a loan size of PHP 8,000 where benefits and / or premiums are based on loan amounts. This is a typical loan size among the relevant institutions.
3. We also assumed, that on average 50% of the loan amount has been paid at the time the insured event occurs where benefits are tied to the loan amount outstanding,.
4. We assumed a savings balance of PHP 5,000 where benefits cover the policyholder's savings.

### Assumptions about coverage of specific products:

1. The CARD family package pays increasing benefits over the period of participation to both limit costs related to pre-existing conditions and provide incentives for clients to stay with their MFI and MBA because the benefits are better the longer one remains..
2. The CARD family package covers the policyholder's parents or spouse and children. We assumed that the covered family would include the spouse and children (and no other dependents).
3. CARD pays different benefits for disability by accident vs. illness. The comparison table includes the straight average of these two amounts.
4. Products offered by CARD and TSPI have equity value (in each case refundable if the member leaves or dies); we have subtracted that amount from the premium for those products.
5. TSPI and CLIMBS products also pay dismemberment benefits (according to a schedule); these benefits are not included because the covered events are particularly unlikely and because the benefits vary by type of dismemberment too widely to be easily compared.
6. The CLIMBS GLAFI product pays a different benefit for death due to murder (higher than for death due to sickness but lower than for death due to accident), and also pays a hospital confinement benefit. It also includes fire insurance cash assistance. We did not include these benefits in the analysis.