WIN – WIN – WIN

Profitability and client value along the life microinsurance value chain in the Philippines

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Executive summary

As a follow up to our study of life microinsurance in the Philippines ([MILK Brief #14: The Business Case for Life Microinsurance in the Philippines: Initial Findings](#)) the MicroInsurance Centre's MILK team returns to this vibrant market to study the business case for life microinsurance at various stages of the value chain. The bulk of our analysis focuses on distributors and insurers, which we complement with a discussion of value (drawing from MILK's Client Math work) and how an understanding of value can inform and even enhance an insurer's or distributor's business case.

We found a clear-cut business case for MFI and cooperative distributors in partner-agent relationships as well as strong indicators of positive return on investment for an in-house MBA distribution channel. We observed positive financial outcomes for distributors of both mandatory and voluntary covers. While mandatory credit life with high commissions is an obvious path to profitability, we also observed that efficient distributors were able to profit when offering voluntary products as well.

For insurers, our updated analysis of five life microinsurance programs' financial results for 2008-2012 revealed continued and robust top line growth along with combined claims and expense ratios consistent with profitability. The upward trend in loss ratios we previously identified continued unabated in 2012. Increases in loss ratios appear to be a function of both aging of MFI memberships and the effect of competition on pricing and/or benefits.

Managements uniformly report increasing competition for life microinsurance business as commercial and cooperative insurers seek greater market share. This competitive pressure on the MBAs is compounded by slowing growth of their sponsor MFIs' memberships; attempts to expand beyond their natural MFI constituencies have produced uneven results. Overall, MBAs still dominate the market; they benefit from large books of profitable credit life as well as compulsory sales of additional life insurance across their large membership bases. In addition, they have the lowest claims ratios and the lowest combined ratios, as well as tax favorable treatment from government, making them more profitable than their commercial or cooperative counterparts. However, MILK believes the MBAs will continue to be pressed by these competitors and that their ability to take advantage of their effective distribution channels and strong balance sheets will be key to their future prospects.

I. Introduction

In a 2012 review of five life microinsurance programs in the Philippines (Koven et al., 2012), MILK found a compelling business case for the four insurers and one intermediary studied. Though this preliminary analysis conveyed some interesting lessons about the business case for these individual players, it focused on only one piece of the value chain for each program. To explore the business case further, we expanded our analysis to include pieces of the broader value chain of four different microinsurance operations. We begin with the assumption that to be financially sustainable in the long term, a microinsurance program must provide value at each stage of the chain, for insurers, distributors, and end clients.

First, we analyze the business case for distributors of three of the programs (TSPI-MFI, OIC, and UPLiFT), and complement this analysis with updated 2012 financial results for the three relevant insurers (TSPI-MBA, CLIMBS, and PPLIC, respectively). We then analyze the business case for a broker (MicroEnsure) and insurer (CARD MBA), in each case complementing this analysis with findings from MILK's client value work on the value these programs have to clients. Figure 1 provides an overview of the programs, with the components we studied shaded in blue.

Figure 1: Microinsurance programs

Insurer		Distributor		Client
TSPI-MBA	➔	TSPI-MFI	➔	Borrowers of TSPI-MFI & dependents
CLIMBS	➔	OIC (through CAC)	➔	Borrowers of OIC
PPLIC	➔	UpLiFT	➔	Borrowers of UPLiFT
CARD-MBA	➔	CARD-MFI	➔	Borrowers of CARD-MFI
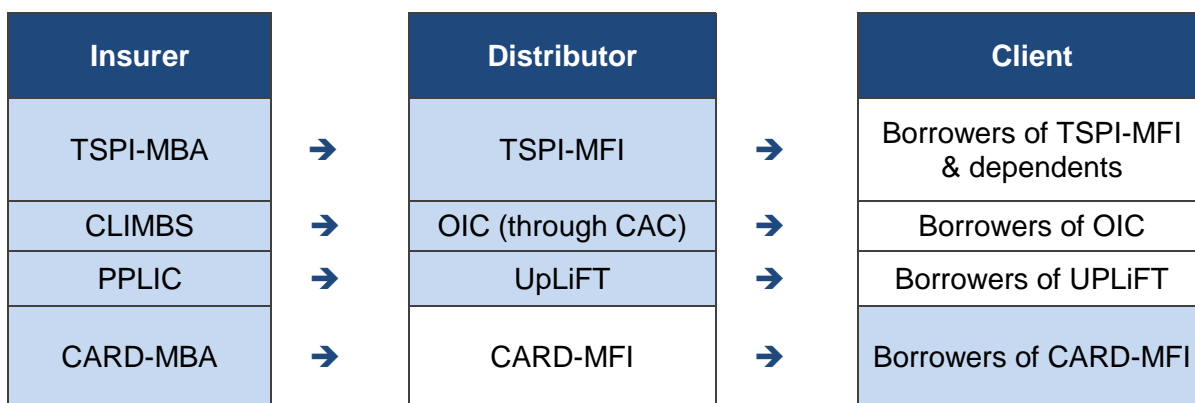
For **distributors**, we examined premium and commissions (where commissions apply) along with direct and allocated costs associated with distribution activities for select products. For insurers, we calculated growth and profitability of the entire microinsurance business. For clients, we used MILK's "Client Math" methodology to analyze the financial value of the products for beneficiaries who made claims under the programs.

We find positive outcomes for all parties along the value chain: insurers and distributors are (or could be) profitable, and products are valuable to clients, at least to those who make claims. The fact that these products are commercially viable may be unsurprising to some, but our analysis also reveals nuance around when, how, and to what extent these programs are profitable or valuable to different players in the value chain. It also explores the relationships between these players and the tradeoffs that occur. We also discuss changes that these programs may expect in the future, and explore opportunities to improve the value proposition for all of these players.

The remainder of this paper is organized as follows: Sections II through V analyze individual programs in the order listed in Figure 1; Section VI reviews consolidated lessons across programs; and Section VII concludes.

II. TSPI

BACKGROUND

Tulay sa Pag-unlad, Inc. (TSPI-MFI) is a non-profit microfinance institution that provides group and individual loans to small business owners, farmers, and others throughout the Philippines. It offers mandatory life insurance to its borrowers, as well as a voluntary life products to non-borrowers through its affiliate, TSPI Mutual Benefit Association (TSPI-MBA). TSPI-MBA is based in Manila, was founded in 2007, and now covers nearly 500,000 lives. As of January 2013, TSPI-MFI operated 160 branches spread across Luzon and Mindanao.

Insurer		Distributor		Client
TSPI-MBA	➔	TSPI-MFI	➔	Borrowers of TSPI-MFI & dependents
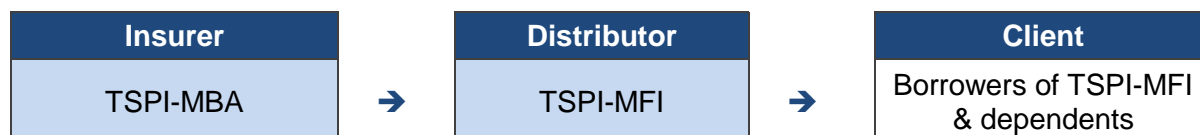
We examined the business case for both the insurance and distribution components of the value chain. In both cases, our analysis considers both the mandatory and voluntary life microinsurance products underwritten by TSPI-MBA and distributed by TSPI-MFI. Table 1 summarizes TSPI-MBA's membership.

Table 1: TSPI-MBA members and gross premiums during the study period, Taguig 2 branch

PREMIUMS (PHP) & MEMBERS		2011			2012 (Jan-Aug)		
		Premium	No. Members		Premium	No. Members	
			New	*Renewals*		*New*	*Renewals*
Borrowers (mandatory credit life and term life)	Credit Life[5]	1,137,480	886	1,243 (est.)	747,335	503	1,583 (est.)
	Term Life	438,332			318,400		
Non-borrowers (term life)		575,416	977	1,282	418,560	503	1,133
TOTALS		**2,151,228**	*1,863*	*2,525*	**1,484,295**	*1,006*	*2,716*
			4,388			**3,722**	

BUSINESS CASE FOR THE DISTRIBUTOR: TSPI-MFI

We seek first to determine the cost of distributing the TSPI-MBA products through the branches of TSPI-MFI. For this purpose, we analyzed the insurance distribution of Taguig 2 branch during the period January 1, 2011 to August 31, 2012.[6] Unlike the other cases in this study, no commission is paid by TSPI-MBA (the insurer) to TSPI-MFI (the distributor). While there is as a result no direct profit for TSPI-MFI, its management believes there is a net indirect benefit resulting from delivering insurance as part of a broader set of financial services. While we do not quantify such net indirect benefits (marginal increase of the Taguig 2 branch's profits as a result of offering insurance, less direct and indirect costs of distribution), we discuss their possible role in profitability below.

Since TSPI-MFI does not have separate expense accounting for its insurance activities, we analyzed the distribution processes and interviewed staff members to estimate the cost of staff time and other insurance-related expenses. A portion of the branch's other overhead was also allocated to insurance. A summary of these costs is provided in Figure 2.

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[5]Credit Life premium was based on 6,104 loans in 2011 and 3,786 loans in the first 8 months of 2012. Most loans have a duration of less than one year, thus it is possible for a member to have multiple loans in a single year.
[6] The branch was recommended for study by TSPI-MBA Management because it is conveniently located near the MBA's Head Office and because it is a consistently 'good performer'. We do not believe that the selection on that basis introduces a material bias and assume that the findings are suitably representative of other branches.

Figure 2: TSPI Taguig 2 branch cost breakdown per member, 2012 (PHP)
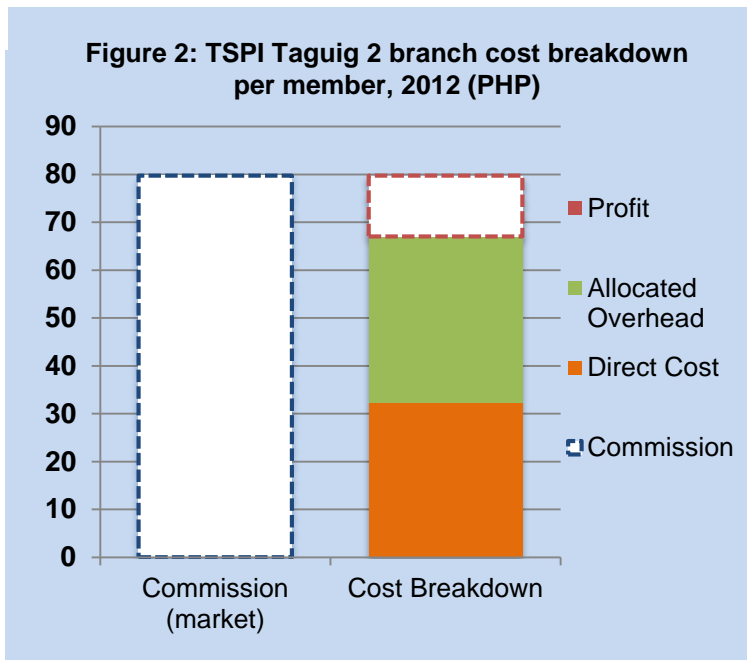
We took two steps to determine the cost of insurance distribution for TSPI-MBA. First, we calculated direct marginal personnel expenses resulting from insurance distribution, resulting in a distribution expense ratio near 10% of gross premium. We then added directly a portion of the remaining branch overhead based on business volume. Using this approach, **insurance distribution expenses on average were 18.9% of gross premium income**, or a total of PHP 406,615 (USD 9,283) in 2011. For TSPI-MFI, this means that a commission of 20% would be required to realize a modest direct profit from insurance distribution activities.

See Appendix 1 for a full description of the cost analysis.

Since TSPI-MFI is not paid a commission from TSPI-MBA, any benefit that it gets in return for its distribution activities will be indirect, in the form of increased revenues from its loan clients. We estimate this return to provide insight into whether TSPI-MFI may expect a reasonable economic benefit from its distribution activities. Since TSPI-MFI earns a net margin of 6.6% on its loans business we can calculate the additional sold (or retained) loan volume required to breakeven on the insurance costs.[7] The result, PHP 6 Million, is about 13% of the total loan volume for this branch which covers 4,388 new and renewing members. Therefore, without a commission, **TSPI-MFI must be convinced that by distributing insurance it sells or retains 570 members (13% of 4,388 total members) that it otherwise would not have sold or retained**. To determine whether this is true would require additional research surveying of the membership, and perhaps some control group testing, all of which is beyond the scope of MILK's work. Nonetheless, this exercise offers a fresh perspective for MFI management to understand the benefit it gets from insurance relative to the expense.

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[7] *PHP 406,000/.066 = PHP 6,151,515*

BUSINESS CASE FOR THE INSURER: **TSPI-MBA**

TSPI-MBA had strong financial results in 2012. After seeing some retrenchment in its top line in 2011, premium income grew 23% in 2012. At the same time, claims were down, resulting in a loss ratio of 23% (vs. 37% in the prior year). With expenses stable, TSPI-MBA produced a combined ratio of 56%, the lowest in our study group and a strong basis for profitability (see Figure 3). TSPI covers approximately 530,000 lives, far fewer lives than CARD (7 million), yet it generates a much higher premium per covered life. While its cost to administer each life is somewhat higher, perhaps reflecting its relative lack of scale, its low loss ratios keep it in a very solid financial position.
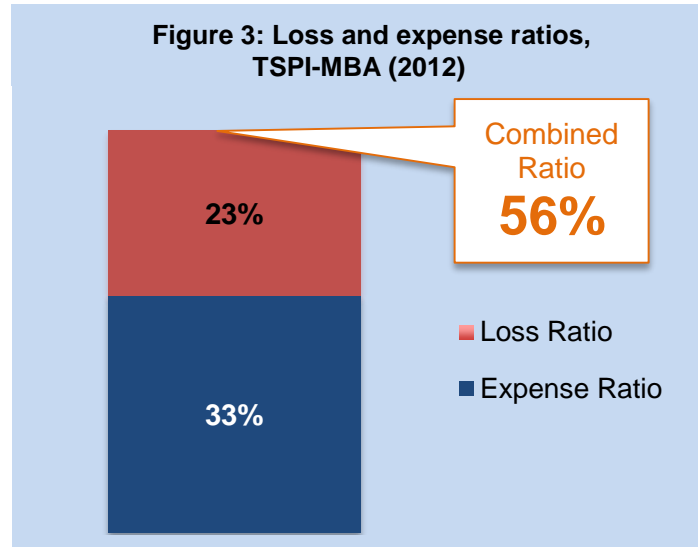
In our prior report we noted that TSPI had pulled back on its insurance to focus more on its loan business. TSPI's return to focusing on insurance, along with its apparent success, is another indicator of the competitive dynamic at work in the Philippines life microinsurance sector. This shift may be seen as some indication that management believes that not promoting insurance puts TSPI-MFI at a disadvantage, though it seems also to reflect a re-focusing of its approach to loan clients.

Figure 3: Loss and expense ratios, TSPI-MBA (2012)

Combined Ratio **56%**

23% — Loss Ratio
33% — Expense Ratio

CONNECTING THE LINKS OF THE CHAIN

We find a very strong business case for TSPI-MBA's insurance activities. Even without collecting any commission, TSPI-MFI's management perceives indirect benefits from offering microinsurance to its members, although such benefits are difficult to measure. This view reflects competitive dynamics of the microcredit market in the Philippines, and the use of microinsurance as an added-value service to attract and retain borrowers. As microinsurance becomes more widespread, however, its ability to differentiate TSPI-MFI may decline, and it may require a commission to support the costs of its distribution.

TSPI-MFI's distribution processes are reasonably efficient, and its costs could easily be covered by a market rate commission. It seems, at least in the near term, as if TSPI-MBA could support such a commission from the profits it earns on microinsurance activities.[8] In the longer term, however, the effects of competitive pressure in the microinsurance market may continue to exert downward pressure on prices, and may ultimately call this strong business case into question.

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[8]Though regulation in the Philippines requires TSPI-MBA to maintain an expense ratio (including commissions paid) of below 20% on its primary product.

III.CLIMBS & OIC

BACKGROUND

CLIMBS Life and General Insurance Cooperative (CLIMBS) is a composite insurance cooperative owned by more than 2,000 primary cooperatives and federations throughout the Philippines. CLIMBS was founded in 1971, and virtually all (98%) of its 1.1 million covered lives are among the low-income population. It was established by the late Attorney Mordino Cua, who also founded Oro Integrated Cooperative (OIC). OIC is a multi-purpose cooperative that primarily focuses on savings and credit. OIC currently has 15 branches situated in key cities and provinces. As of April 2012 it had 75,000 members and 15,000 associate[9] members.

Insurer		Distributor		Client
CLIMBS	➜	OIC (through CAC)	➜	Borrowers of OIC
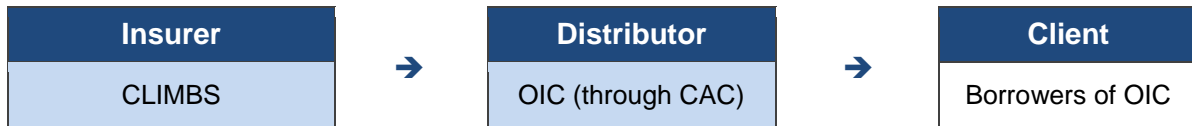
OIC distributes the mandatory CLPP (CLIMBS Loan Protection Program, credit life), earning a commission of 25% on a premium rate of 1.5% of disbursed loan value per annum. In 2011, OIC earned over PHP 5 million (USD 114,155) in commissions for CLPP alone in its 14 branches. It also offers a mortuary product (funeral cover). For many years, OIC self-funded the mortuary program, but is now insured with CLIMBS due to a 2010 regulatory determination in the Philippines requiring all informal insurance to formalize. The rate charged for the mortuary program is PHP 410 per annum (USD 9.36); OIC receives a 10% commission. These microinsurance products are mandatory for borrowers of OIC but voluntary for savers.

We analyzed the business case for insurance and distribution activities for both OIC and CLIMBS.

BUSINESS CASE FOR THE DISTRIBUTOR: OIC

We first determine the profitability of distributing the CLPP product from the perspective of the distributor, OIC. Since OIC does not have separate expense accounting for its insurance activities, we analyzed distribution processes and estimated the cost of staff time and other related expenses. We limited our analysis to CLPP due to incomplete data for the other microinsurance products OIC offers. Furthermore, for expediency, only the CLPP 2011 data of the main OIC branch (the largest and oldest branch) was included in the study; we believe this branch is representative of the entire organization.

OIC offers insurance through the CoopAssurance Center (CAC), which is a standalone profit center. The CAC is run by two people who train marketing representatives who are also OIC members. Currently there are a total of 45 such marketing representatives in the 14 OIC branches. These marketing representatives are allowed to sell only to other OIC members, so non-members must become OIC members if they want to access insurance. Prospective OIC members must deposit share capital and undergo an orientation which lasts several hours. OIC's main branch also employs six Loan Department Personnel (LDP) who also process credit life insurance applications when loans are released. Volumes of clients and premiums for the main branch are shown for 2011 in Table 2.

Table 2: CLPP members, premiums and commissions (main branch)

CLPP premium in 2011 (PHP)	2,027,604
No. of insured loans in 2011	2,173
CLPP commission in 2011 (25%, PHP)	506,901

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[9] Associate members do not invest share capital but patronize some of the services that are available for the general public, such as having a savings account.

To calculate the cost of distribution, we began by estimating staff time dedicated to enrollment and claims processing, the only direct costs incurred by OIC. We then allocate a portion of OIC's overhead expenses based on business volume. Figure 4 summarizes the results. See Appendix 2 for the full cost analysis.

We find that **OIC's credit life distribution activities are highly profitable**. In 2011, OIC's main branch enjoyed a gross profit amounting to PHP 433,956 (USD 9,908), which is 85.6% of the PHP 506,900 (USD 11,573) gross credit life commission income if only direct incurred cost (estimated staff time) is deducted. If other expenses are allocated to insurance and deducted on the basis described in Appendix 2, profit is reduced to PHP 368,750 (USD 8,419), which amounts to 72.7% of OIC's credit life commission.

Figure 4: OIC cost breakdown per member, 2011 (PHP)
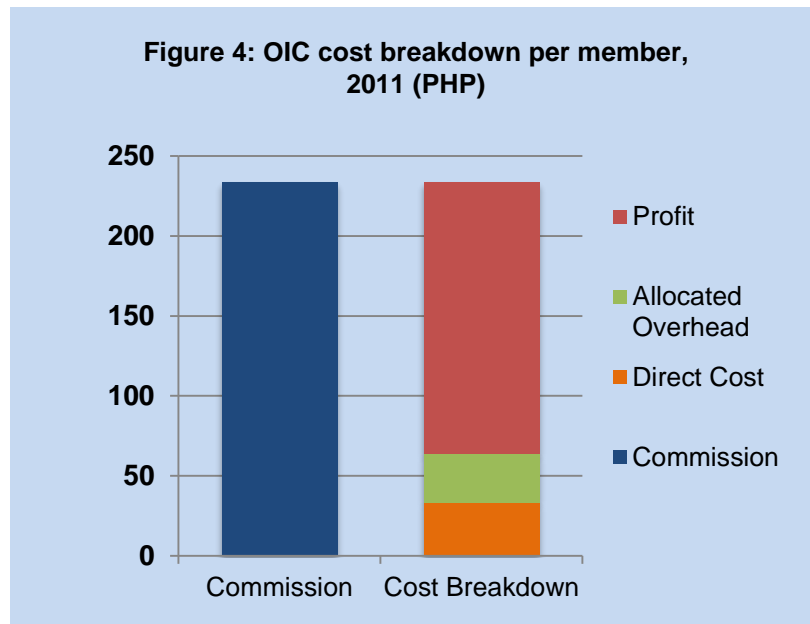
The commission rate for the mortuary product (which we did not study) is just 10% (compared to 25% for CLPP). Distribution expenses for this product are likely to be very similar to those of the one-year term CLPP credit life product, since participation is also mandatory for borrowers. However, the mortuary product is always sold as an annual policy while the CLPP product matches the loan terms and vary from a few months to three years, with 12-month terms being most common. Without a breakdown of loans by term, it is not clear if the average annual premium is comparable between CLPP and the mortuary product, as CLPP charges a single premium for all terms.

For the other life and non-life CAC products, which are offered on a voluntary basis, a commission of 30% is charged. For these voluntary products, selling expenses are expected to be higher because attracting members and convincing them to purchase additional coverage incurs both salary and incentives costs. We did not analyze the profitability of these voluntary products due to insufficient data.

BUSINESS CASE FOR THE INSURER: CLIMBS

Over the past few years, CLIMBS has experienced robust growth in the microinsurance sector, with premium revenue increasing by 20% in 2012. 2012 also saw continued increase in loss ratios, up to 46% from 38% in 2011 and 21% in 2008. Controlled expenses, however, led once again to profitability, with a combined ratio of 74% (Figure 5), up from 68% in 2011 and 43% in 2008. Going into 2013, the company expects continued topline growth in microinsurance and is focused on decreasing its expense ratio, particularly by investing in technology, in order to further improve profitability.
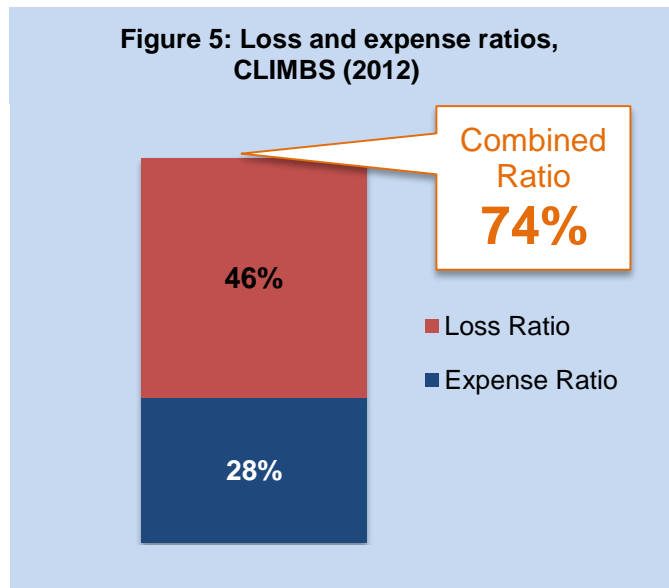
CLIMBS' management reports that several factors contribute to its

Figure 5: Loss and expense ratios, CLIMBS (2012)

Combined Ratio **74%**

46%

28%

- Loss Ratio
- Expense Ratio

increasing loss ratios. First, there were disastrous typhoons in December 2011 and December 2012 that hit Mindanao, as well as the massive flooding in Metro Manila and other parts of Luzon, which resulted in a rash of claims. Second, the memberships in many cooperatives are aging as growth for most coops has slowed over the years. In 2012 CLIMBS also began to assume more and more in-house mortuary programs from the larger cooperatives. The insurance regulator, the cooperative regulator, and SEC had issued the joint directive two years earlier that all informal mortuary programmes must formalize (i.e. work with an insurance company like CLIMBS). These programs have proved difficult to price properly and have led to losses. Renewal re-pricing is expected to bring these programs back into profitability in 2013.

Lastly, like the other life microinsurers in the Philippines, CLIMBS has been experiencing intensifying competition, which puts pressure on premium rates. Some companies are offering credit life for as low as 0.35 per 1000; with mortality rates near 0.30 per thousand or higher in most cooperatives, this puts great pressure on CLIMBS. CLPP (credit life) amounts to 67% of CLIMBS' life business, and although CLIMBS distinguished itself by offering refunds for good claims experience as well as member dividends on its surplus (both of which imply that it should be competitive even with above-market pricing), the low prices offered by others in the market have put downward pressure on CLPP rates.

CONNECTING THE LINKS OF THE CHAIN

Of the products offered by CLIMBS through OIC, we find the strongest business case for both parties in the mandatory CLPP product. It is responsible for much of the scale that CLIMBS has reached, and is profitable for both OIC and CLIMBS. The mandatory nature of this product helps to keep costs under control, but these products are also becoming more expensive to underwrite due to aging of the client base. Over time, increasing competitive pressure that forces down premium rates may also contribute to eroding the profits experienced by both OIC and CLIMBS. It seems, at least at this stage, as if there is some room for competitive pressure to decrease premiums charged while allowing both parties to continue earning profits from CLPP.

The mortuary product, by contrast, is currently leading to losses for CLIMBS. While we did not directly analyze distribution costs for this product, it is likely still profitable for OIC, but less profitable than the CLPP product due to its lower commission. CLIMBS expects to earn profits from this product line after it is re-priced, but the continuing effects of competitive pressure remain to be seen.

IV. PPLIC & UPLiFT

BACKGROUND

Urban Program for Livelihood Finance & Training (UPLiFT) began in 1993 in Navotas, a fishing port, as a micro credit project of InterAide, a French NGO, during the time when the Grameen Bank approach to microfinance was gaining global popularity. Due to the limitations of the group liability lending approach, UPLiFT implemented an individual loan and savings program combined with self-awareness and business development training. In 1994, UPLiFT expanded these operations to the City of Caloocan and in the Municipality of Malabon, both areas adjacent to Navotas. Expansion continued in Manila, and today UPLiFT runs five programs.

Insurer		Distributor		Client
PPLIC	→	UpLiFT	→	Borrowers of UPLiFT
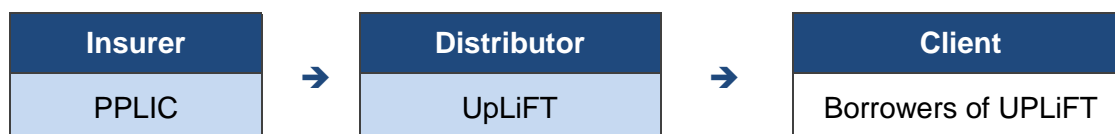
UPLiFT's microloans, ranging from PHP 1,000 to 150,000 (USD 23 to USD 3,425), are provided for the entrepreneurial urban poor and are intended for capitalizing new business ventures, acquisition of assets and equipment, business expansion and business diversification. Microinsurance has been sourced from Philippine Prudential Life Insurance Company Inc. (PPLIC) since 2010. Participation in the life microinsurance program is mandatory for partner-clients but voluntary for spouses, children, siblings, and parents living in the same household. Non-clients cannot purchase the insurance package.

BUSINESS CASE FOR THE DISTRIBUTOR: UPLiFT

PPLIC pays a commission ranging from 18.53% of gross premium for partner-clients' coverage to 40% for spouse / sibling / dependent parent coverage and 52% for child coverage. While the overall commission rate as a ratio of gross premium may seem high for dependents' coverage, aggregate commission income may not be sufficient to offset the incremental costs of offering insurance if the insurance business volume is small. The aim of the study was to quantify these costs to see if this was the case. The insurance participation levels and premiums for all five UPLiFT programs are indicated in Table 3.

Table 3: Participation and gross premiums during the study period (all programs)

Jan-Aug 2012	ENROLLMENT		PREMIUMS (PHP)		TOTAL PREMIUM
	Principal	Dependent	Principal	Dependent	
CaMaNaVa	3,591	2,832	538,650	94,290	632,940
Quezon City	3,087	1,571	490,950	54,490	545,440
Bulacan	2,805	621	420,750	22,300	443,050
Manila	2,066	1,622	309,900	55,600	365,500
Cavite	660	0	99,000	0	99,000
TOTALS	12,209	6,646	1,859,250	226,680	2,085,930

UPLiFT loads a margin to the net rates provided by PPLIC. Its main objective is to have a self-sustaining insurance program (i.e. commissions should be sufficient to cover the marginal cost of providing insurance, but it does not expect large profit margins from insurance). Of the five UPLiFT programs, we selected CaMaNaVa (Caloocan, Malabon, Navotas, Valenzuela) for the cost analysis. This program covers six branches and is a convenient study unit, as accounting is disaggregated at program level.

Unlike the other distributors studied, UPLiFT's accounting identifies and allocates some specific cost items to insurance and thus regards insurance as a profit center. We also

analyzed the direct cost of staff time spent on processes. In order to test the actual expense allocations for adequacy, a portion of the entire program overhead was allocated to insurance on the basis of business volume. To study the processes, we visited the CaMaNaVa Roadbay branch located in Navotas. Here, staff were interviewed and observed as they went about their usual activities. The period covered by the study was January 1 to August 31, 2012; this period and location was selected in September 2012 when the study commenced due to data availability at the time. Table 3 above provides details of enrollment and premiums for the microinsurance offering.[10]

In January-August 2012, CaMaNaVa received a total estimated commission of PHP 145,076 from PPLIC (a breakdown of our calculation may be found in Appendix 3), which amounts to approximately 22.9% of the gross premiums collected though CaMaNaVa. We then calculated the direct costs (consisting of staff time for enrollment, renewal, claims processing and other activities related to insurance), and allocated a portion of UPLiFT's overhead to these distribution activities using three different approaches. Findings using our most conservative (highest cost allocation) approach are summarized in Figure 6, and a breakdown of the full analysis can be found in Appendix 3.
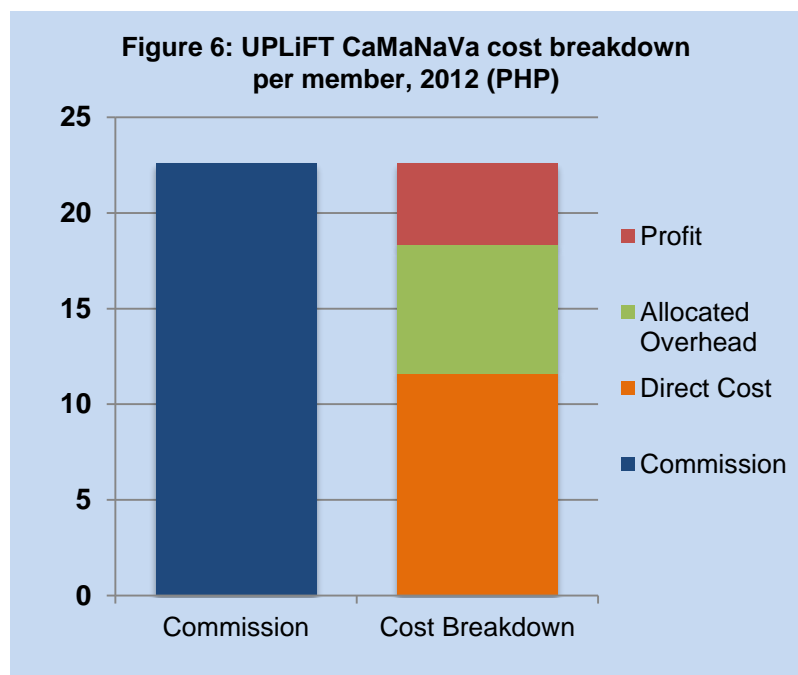
Figure 6: UPLiFT CaMaNaVa cost breakdown per member, 2012 (PHP)

UPLiFT's distribution costs were comfortably covered by the commission revenue for the CaMaNaVa program over Jan-Aug, 2012. In this partner-agent arrangement, the MFI profits from the distribution of insurance with a margin of between 18% and 38% depending on the methodology used (see Appendix 3). We have great confidence in this finding given that UPLiFT accounts for its insurance expenses more specifically than the other distributors in our study and due to the fact that the result stands up to multiple tests of allocation methodologies.

The result is also underscored by the facts that profit is earned even after the MFI has paid its loans staff a sales incentive for the insurance and that PPLIC premium rates are much lower than the others we looked at, so that the basis for earning commissions is lower. Taken together, our findings indicate a very strong business case for UPLiFT's distribution of insurance under this partner-agent arrangement.

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[10] A breakdown by first-time insured vs. renewals was not available.

BUSINESS CASE FOR THE INSURER: PPLIC

PPLIC was one of only two insurers MILK observed in 2012 that actually saw a decrease in its loss ratios. This finding is perhaps not surprising, as it entered the life microinsurance market with aggressive pricing in order to increase its market share and as a result sustained a loss ratio of over 90% in 2011. Although PPLIC increased its premiums by 32% in 2012, it still has limited market share with less than 1% of premium volume among our study group.

Figure 7: Loss and expense ratios, PPLIC (2012)

Combined Ratio **96%**

66%

30%

■ Loss Ratio
■ Expense Ratio
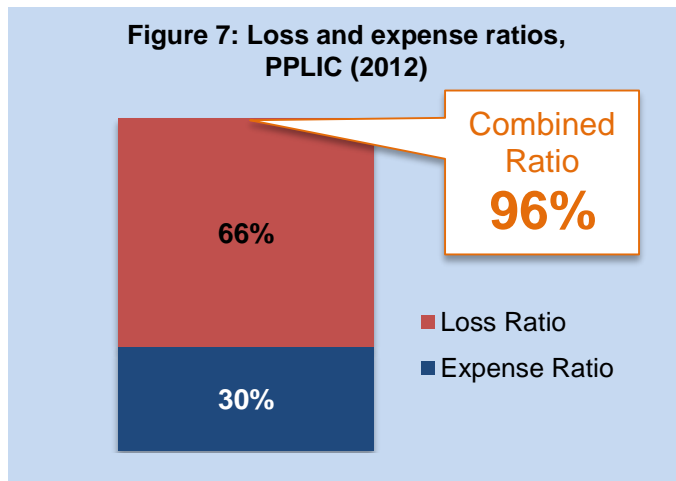
Despite early disappointing results, PPLIC's management believes it has made progress in the microinsurance market, as it instituted rate increases and saw loss ratios drop to 66% in 2012 (See Figure 7). PPLIC is determined to grow the microinsurance business and is focusing outreach to cooperatives, which it sees as prospective distribution partners, while also partnering with MBAs that need support from a commercial insurer.

CONNECTING THE LINKS OF THE CHAIN

UPLiFT's distribution of this life microinsurance product is profitable, but there is not much room for commissions to come down (especially using our most conservative calculation of costs). At the same time, the business case for PPLIC is tenuous. Though its loss ratios are improving after 2012 rate increases, it has still failed to gain the scale that its initial low prices were intended to secure. Like other insurers in the market, it will likely continue to face competitive pressure to keep prices low and/or increase coverage.

V. CARD

BACKGROUND

The Center for Agriculture and Rural Development MBA (CARD-MBA), like TSPI-MBA, is a mutual benefit association linked to its affiliated MFI, CARD-MFI. CARD-MFI was established in 1986 as a non-profit, non-political foundation, and now offers a variety of financial products, including savings, loans, and insurance, through the CARD Mutually Reinforcing Institutions (or CARD MRI) family. One such product is the life microinsurance product underwritten by CARD-MBA and distributed on a mandatory basis to borrowers of CARD-MFI. We explore the business case for CARD-MBA using five years of data on membership and profitability, and complement this with an analysis of the value clients get from the product.

Insurer		Distributor		Client
CARD-MBA	➔	CARD-MFI	➔	Borrowers of CARD-MFI
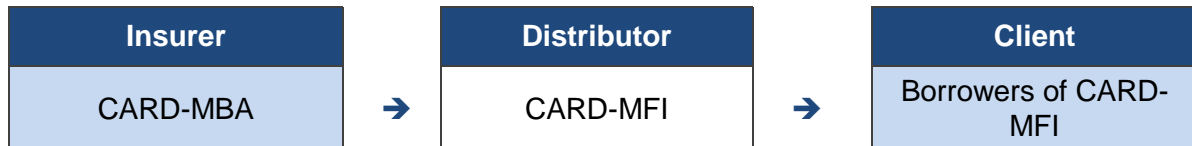
BUSINESS CASE FOR THE INSURER: CARD-MBA

CARD-MBA returned to solid premium growth in 2012, increasing 7% over the previous year. Membership has doubled since 2008. CARD-MBA's ambitious goal is to have 5 million members by 2015, up from the 1.6 million enrolled in 2013. Although CARD has looked beyond its core membership in CARD-MFI, marketing through other MFIs and Coops, only 15,000 members have resulted. CARD-MBA's management reports increased competition from other MFIs that are establishing their own MBAs and/or adding new products. It seems, therefore, that substantial increases in insurance enrollment will come only from within CARD-MFI's membership base (or by increasing that membership base).

There have been several regulatory changes that appear to make MBAs more competitive and support CARD's plans for growth. Membership equity deposit refund rules were made more liberal, and now members enrolled for less than three years receive a 35% refund, whereas before they received none (members enrolled for over three years get a 50% refund.) In addition, new regulations will allow the use of MBA equity for infrastructural improvements, which again should help sup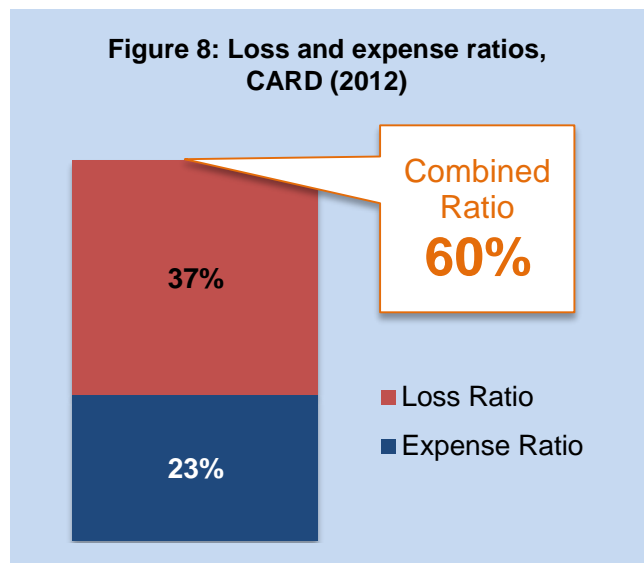port growth. Lastly, in response to an increasingly competitive market, in 2012 CARD increased its benefits, particularly its disability benefit.

Figure 8: Loss and expense ratios, CARD (2012)

Combined Ratio **60%**

- Loss Ratio: 37%
- Expense Ratio: 23%

MILK observes that CARD's loss ratio increased again in 2012, reaching 37% (Figure 8), more than double what it was in 2008. We assume that this is at least in part the natural outcome of the increase in benefits as part of the competitive dynamic. However, CARD is facing another important challenge - like CLIMBS, its membership is aging. CARD-MBA has been operating for almost twenty years and CARD-MFI for almost thirty. Currently eligibility for insurance coverage ends at age 70, but CARD-MBA is considering increasing this cutoff to age 100. To do so will require approval of the Insurance Commission and, of course, increased premiums or reduced benefits or increased loss ratios as payouts become more frequent.

Looking to the future, CARD-MBA's management seeks to grow its client base more than threefold in five years' time. It is amply capitalized and appears ready to deploy that capital to support more competitive products accommodating the aging of its membership along with the infrastructural improvement needed to manage a more complex product portfolio and dynamic risk profile.

VALUE PROPOSITION FOR CLIENTS

In early 2013, MILK conducted a Client Math study of the CARD-MBA life and funeral microinsurance product to better understand the value it provides to beneficiaries after claims are made. We interviewed family members of 70 recently deceased people, half of whom were covered by the CARD product and half of whom were uninsured, to understand the costs those families incurred after the death, how those costs were financed, and the role that insurance played for those who were covered.

We found that clients do receive value for the insurance coverage, which is paid very soon after the client's death and is used mostly to pay for the wake, funeral, and related expenses. In some other Client Math studies, we find that by covering a portion of costs, insurance allows insured families to cover the remaining costs with different, less burdensome financing strategies than the uninsured. In this study, however, financing strategies were similar between the insured and uninsured. Both insured and uninsured families covered most funeral costs with donations from friends and family. While the insured benefitted from the additional cash payout from the insurance, even the uninsured were not forced to turn to "difficult" financing strategies to cover funeral costs.

We also compared the value of CARD-MBA's product to another in the Philippines offered by MicroEnsure through the MFI TSKI, in the same area as CARD's product. This comparison highlighted the important point that value is not solely determined by the size of the benefit paid. Both products had value for clients as well as shortcomings, but that value emerged in different ways. CARD's product was paid very soon after the death and was used mostly for the funeral expenses. It provided an extra cash injection to help the family cover the large cost of a funeral, but did little to cover other costs. MicroEnsure's product, by contrast, was larger and was paid later (often much later) in two payments: the first intended to cover funeral costs and the second targeted at replacing lost income and otherwise adapting to the ongoing costs of the death. Long delays limited the product's value in covering funeral costs (as it was paid after those costs were incurred) but may also have encouraged beneficiaries to allocate a larger portion of the payout to income replacement and investments to help them adapt to the financial consequences of the death in the medium and long term (see MILK Brief #27 for a full discussion of the client value of these life microinsurance products.)

CONNECTING THE LINKS OF THE CHAIN

CARD-MBA remains profitable, but has experienced increasing loss ratios over the past few years. It has increased its benefits in response to competitive pressures as it works to expand its membership base. It has also benefitted from some regulatory changes that facilitate this growth, but its ability to thrive as competition increases, as for all insurers, remains uncertain.

Understanding the value that CARD's product provides to clients can inform CARD's efforts as it continues to adapt to these competitive forces. CARD's product is valuable to clients in meeting the narrow but important need for financing funerals, but the other financing tools available to beneficiaries immediately after a death (particularly in the form of gifts from friends, family, and community members) suggest that perhaps coverage might be better targeted at another need. Like many other insurers, CARD-MBA offers a composite microinsurance product that combines life and non-life coverage. Further efforts to understand the financial needs of and other tools available to its clients might help it to adapt coverage to maximize value, even without increasing benefits.

VI.   Findings across programs

DISTRIBUTORS

We studied three different distributors of life microinsurance in the Philippines, each different in some important way. The premiums and commissions charged, costs incurred, and scale of these programs varied greatly (see Table 4). Some of these differences can be explained by the context in which the different programs operate, by product differences or by the insurer underwriting the product, as we discuss below.

Table 4: Summary of study results

	OIC main branch	UPLiFT CaMaNaVa Program	TSPI - MFI Taguig 2 branch	
Period Studied	**2011**	**2012 (8 Months)**	**2011**	**2012 (8 Months)**
Lives Insured	2,173	6,423	4,388	3,722
Premium	2,027,604	632,940	2,151,228	1,484,295
Premium PMPY	933	99	490	399
Product	Credit life	Family life package	Credit Life, Funeral, Term Life	
Commission, PHP	506,901	145,076	n/a	n/a
Commission, %	25.0%	22.9%	n/a	n/a
Cost, PHP	135,151	117,558	406,615	270,863
Cost, %	6.7%	18.6%	18.9%	18.2%
Cost per Life	62.20	18.30	92.67	72.77

TSPI-MBA's mandatory and voluntary products distributed through its Taguig 2 branch is unique in our study in that this channel is set up as a cost center within TSPI-MFI, so that no commissions are paid to the distributor. Nonetheless, we were able to determine that its direct costs plus a reasonable allocation of overhead amounted to 18.5% of premium. Since we know that other insurers pay commissions of 20% or more to external channels we can conclude that there is a business case for TSPI-MFI should it consider this activity as a profit rather than a cost center. We also determined that in the absence of commission, the insurance activity could be justified if management believes that it sells or retains an additional 13% of loan volume due to its insurance offering. While we did not perform this calculation for the other distributors in the study (all of which charge a commission and all of which earn a direct profit), it is plausible to assume that those distributors also get some indirect benefits to the extent that microinsurance is viewed as an added-value service that helps them to attract or retain loan clients.

The CLIMBS product distributed through OIC using the CoopAssurance Center (CAC) does have an explicit commission of 25% paid by CLIMBS to OIC. Because their premium basis per member is relatively high, more than twice as high as TSPI's (see Table 4, Premium PMPY), OIC is able to provide these services at a cost of less than 7% of premium, leaving room for ample profit. As we noted in our earlier study, CLIMBS products are priced appreciably higher than the other programs as the cooperative market is distinct from the MFI market, where only lower premiums are deemed affordable. Another reason for higher prices is that CLIMBS issues refunds for good claims experience and pays a dividend to those distributors that invest in the insurer, a portion of which is paid to the insured in the form of the primary coop's own dividend. Higher premiums clearly have the effect of increasing revenue earned from commission and reducing the percentages of revenue absorbed by the cost of distribution.

For OIC we made detailed calculations of direct costs at the branch level and then added a revenue-based allocation of overhead to produce this result. The margin of profitability is so great that it is essentially impossible to conclude anything other than a business case for this distribution channel, even if the costs happened to be substantially higher than our estimate suggests.

For the PPLIC product we also found profitability for the distribution partner, the MFI UPLiFT. The cost structure at its CaMaNaVa branch (18.6%) was very similar to that of TSPI's Taguig branch (18.2%). The margins were lower than those of OIC, however, as PPLIC's premiums are far lower than CLIMBS'. With commissions averaging 23%, UPLiFT still earns a clear though modest margin of profit. In this instance, we closely examined three different allocation methodologies and chose the most conservative to demonstrate profitability.

These findings are notable for several reasons. Through the experience of OIC, we can see that the offer of mandatory credit life cover on a high premium basis and with a 25% commission through a partner-agent arrangement is a clear prescription for profitability for the distributor MFI. In the case of TSPI, any discussion of direct profitability is hypothetical since no commissions are paid, but our findings suggest that TSPI-MFI could earn modest direct profits if it charged a reasonable, market-rate commission. TSPI-MFI's distribution activities have a cost structure similar to OIC's, but the premium basis is lower by 50%. Of course, if commissions were loaded into the premium (rather than being absorbed by TSPI-MBA) some of this difference would be erased. Were this the end of the story, we might then conclude that premium basis and commission basis are the factor that drive profitability.

Before reaching that conclusion, however, we must consider the case of UPLiFT, which presents several unusual dynamics. Although the commission basis is similar to OIC, the premium basis is much lower, just over a tenth of OIC's on a per-member basis. Further, UPLiFT distributes a voluntary life insurance product (for dependents), not only the more simple mandatory credit life that OIC offers. Voluntary products typically entail higher distribution costs than mandatory products. The low premium basis and inclusion of voluntary coverage combine to make UPLiFT's profitability surprising. The apparent reason for this profitability is that UPLiFT's distribution is extremely efficient; its cost basis (e.g., salaries are lower) is far lower than either OIC's or TSPI-MFI's, and the average time spent on key processes is also less (see Table 5).

Table 5: Average time spent on key processes (min)

Distributor	Applications	Renewals	Claims
OIC	19.11	19.11	122.5
UPLiFT	5.2	5.12	52
TSPI	12.03	4.59	75

In sum, MILK examined three distinct distribution channels for life microinsurance in the Philippines. Where commissions were paid, they varied widely (from 16% to 25%) as did costs (from 6.7% to 18.5%). On average costs were 13.6%, and average commission (again, where paid) were 21.3%. In each case, the distribution partner either made a profit or could have, as in the case of TSPI, if it chosen to do so. **MFI distributors appear to have two paths to profitability in life microinsurance, one by way of healthy commissions on high premium basis for mandatory cover and another by achieving a high degree of cost efficiency when faced with a much lower premium basis**.

Figure 9: Cost breakdown per member for all distributors (PHP)
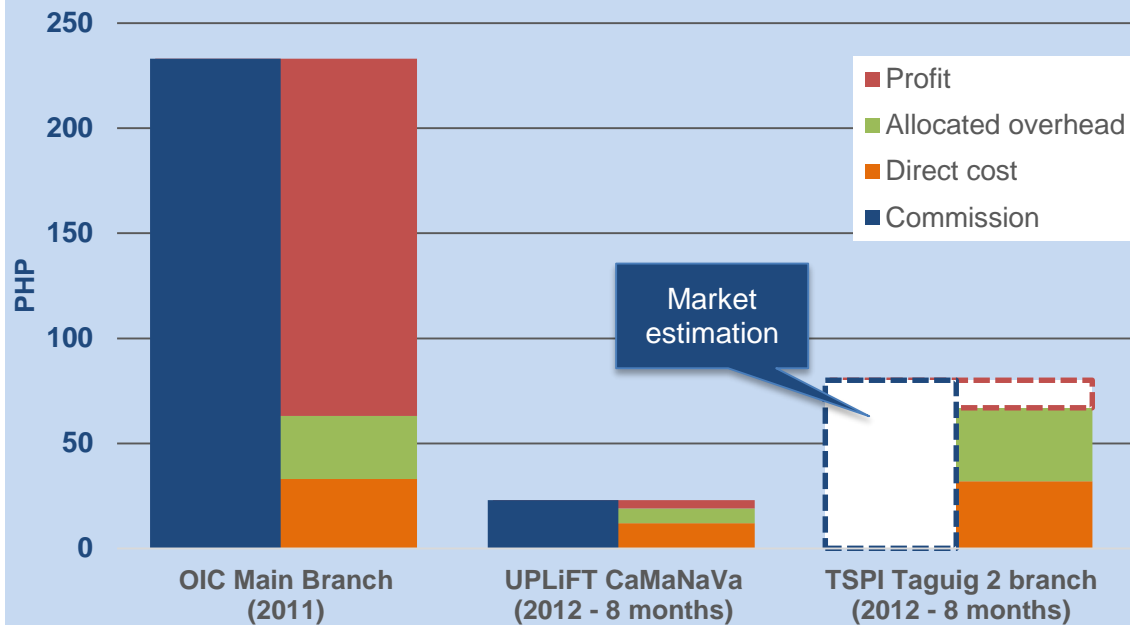
INSURERS

In addition to our distribution analysis, we reviewed financial data at the insurer level for five microinsurance programs. Our initial analysis, summarized in Koven et al. (2012), found robust growth and a strong business case across the five programs studied in the years 2008-2011. This study group covers over 10 million lives (10% of the population of the Philippines). The study also found great variety in the coverage, growth, and profitability of these five programs. Here, we update this analysis by including 2012 financial data from these five microinsurance programs and by considering the individual business proposition for four of these insurers in light of the distributors or clients they work with.

We found **continued robust growth** among these insurers, with premiums written and lives covered more than doubling over the study period and a compound annual growth rate (CAGR) of over 35% (see Figure 10). As a group the life microinsurance programs we studied in the Philippines grew their top lines by 20% in 2012 and all exhibited combined expense and loss ratios consistent with profitability.

Figure 10: Growth of premium & covered lives, 2008-2012

	2008	2009	2010	2011	2012
Total Premium	19,648,475	27,072,184	38,271,995	43,184,308	55,277,723
Total Covered Lives	4,285,785	6,594,119	9,304,613	10,510,521	10,800,854
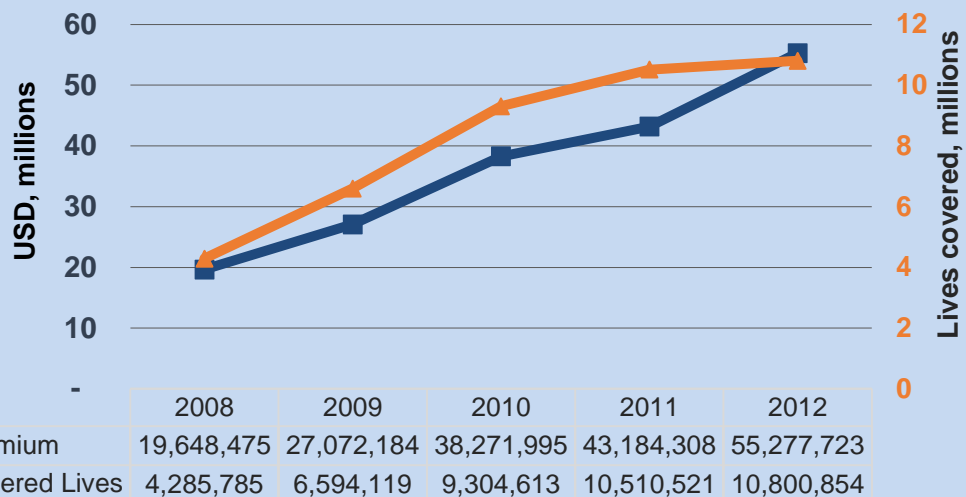
However, this growth is not expected to continue unabated. Managements uniformly report increasing competition for life microinsurance business, as commercial and cooperative insurers seek greater market share. For MBAs, this competitive pressure is compounded by slowing growth of their sponsor MFI memberships; attempts to expand beyond their natural MFI constituencies have produced uneven results.

These five firms exhibit a wide range of **loss ratios,** averaging 36% over a five year period (43% when weighted by premiums per firm) and expense ratios of 25% (28% when weighted by premiums per firm). Loss ratios varied significantly, from a high of 92% to a low of 14%. MBAs generally had lower loss ratios than commercial insurers (including the insurer working with MicroEnsure). We also observed evidence of **increases in loss ratios** during the study period noted (see Figure 11); the average loss ratio for the five programs increased in every year of the study. Increases in loss ratios appear to be a function of aging MFI memberships and the effect of competition on pricing (or increase in benefits in lieu of price reductions).

MBAs still dominate the market; they have the lowest claims ratios and the lowest combined ratios, making them more profitable than their commercial or cooperative counterparts. However, this must be seen in the light of the membership equity deposits that MBAs include in their premium rates, which are, at least in part, refundable.

Figure 11: Loss & expense ratios, 2008-2012 (CARD, CLIMBS, PPLIC, TSPI, MicroEnsure)

	2008	2009	2010	2011	2012
Combined Ratio	43%	51%	52%	68%	74%
Loss Ratio	21%	29%	30%	38%	46%
Expense Ratio	22%	22%	21%	30%	28%
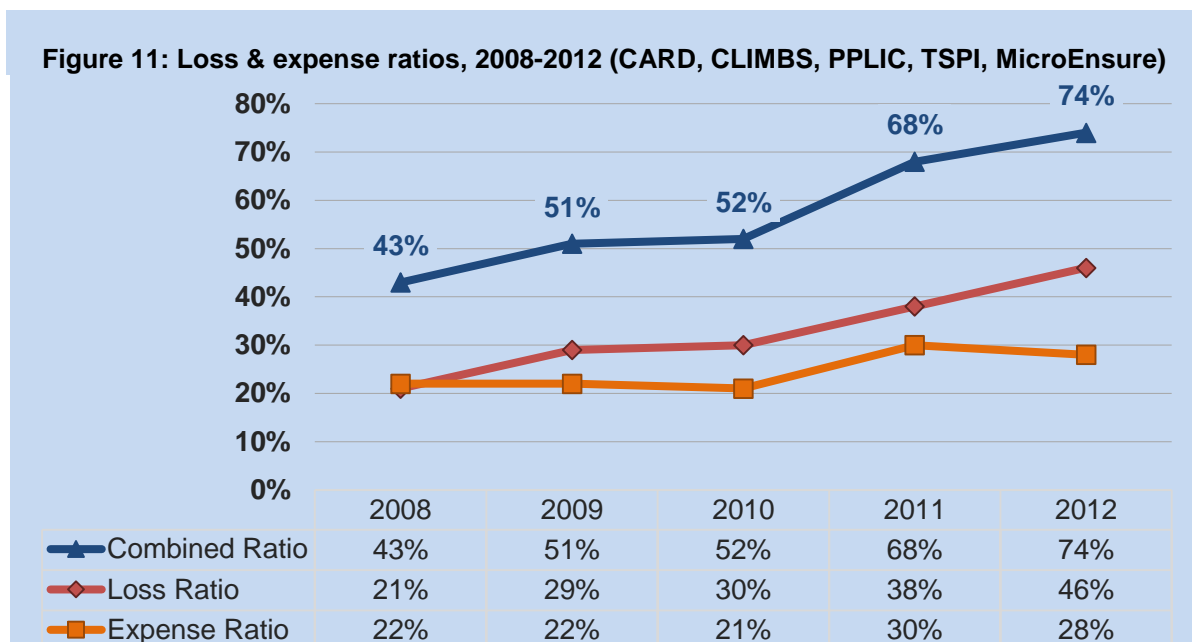
VII. Conclusions

MILK has undertaken an intensive study of life microinsurance in the Philippines to determine the business case up and down the value chain. In our first paper (Koven, et al., 2012) we examined a cluster of five life microinsurance programs in the Philippines chosen as representative of the principle business models operating in this market. In this paper we "drilled down" on the cost studies of three distributors affiliated with our study partners, and we updated with 2012 financial results and analysis from our original report. We also balanced this analysis with findings from MILK's client value work in the Philippines, on the assumption that if clients, the final "link" in the value chain, do not also receive value, the business case will ultimately be drawn into question.

Our study group includes diverse business models including cooperative and commercial insurers, two mutual benefit associations and a microinsurance broker. Together they cover over 10 million lives in

> **There is a strong and unambiguous business case for life microinsurance in the Philippines both for risk takers and distributors.**

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 distribution channels.

We conclude that there is a strong and unambiguous business case for life microinsurance in the Philippines both for risk takers and distributors. This conclusion is supported by premium revenue that has nearly tripled during the study period (2008-2012) and combined ratios in 2012 of 74%, leaving ample margin for profit. Likewise, our study of distributor financials reveals commission revenue easily exceeded related costs and again, ample margins for profit.

While our findings support a business case for a wide variety of insurers and distributors in this market, the relative strength of business case and the ways in which it emerges varies considerably. Determinants of profitability, in very broad terms, are premium levels (the higher the better to support cost of operation and distribution), efficiency (which is in part determined by scale of operations), benefits paid, and (for distributors) commissions charged. We see very different results for the different insurers and distributors studied, due to large differences in each of these determinants of profitability.

Despite their differences, the financial outcomes of these firms exhibit several interesting trends and ongoing challenges. We believe that the successful business results are a function of (1) well established MFI and cooperative sectors that have embraced microinsurance and serve as effective distribution partners; (2) a supportive regulatory environment, which among other things allows MFIs to sponsor their own risk taking entities (MBAs); and (3) emerging competition among MBAs and insurers, including commercial carriers new to this market, who are making investments in growing and/or conserving market share.

> **What is intriguing about the market now in the Philippines is the emerging evidence of competition among insurers for consumers, as well as evidence that competition is leading to improved benefits and reduced premiums.**

This competitive dynamic is what makes a business case examination of life microinsurance in the Philippines so interesting. In the early stages in this market, as well as in others, competition was primarily between insurers for distribution channel loyalty resulting in escalating commissions. What is intriguing about the market

now in the Philippines is the emerging evidence of competition among insurers for consumers, as well as evidence that competition is leading to improved benefits and reduced premiums. This is a healthy development, and although loss ratios are escalating, insurers appear to have the margins in their pricing and the strength on their balance sheets to absorb these costs.

There are currently 15 life insurance companies (about half of the total in the country) that have been granted approval by the Insurance Commission to sell designated microinsurance products; although only nine are currently offering such products, others have entered the market with non-branded products. While this emerging competition should in theory be good for the market, and especially consumers, some insurers (including PPLIC) have initiated a dialogue through the Philippine Life Insurance Association to explore setting up a microinsurance pool with a common tariff rate. This would eliminate price competition. Since such a move requires regulatory approval, MILK expects such a proposal might (and should) face significant push back, so the outcome is far from certain.

Assuming that competition continues to play a defining role, its ultimate effects on the profitability of insurers and distributors remain to be seen. However, increasingly significant competition will likely force profit margins down for some. It will also likely result in more substantial changes to the products offered over time. To date, these changes have largely involved decreasing premiums and/or increasing benefits, but the findings of our Client Math studies suggest that other product changes might also create a competitive advantage for some firms. Understanding the value proposition from a client's perspective yields opportunities to compete not just with lower prices or larger payouts, but with appropriate, tailored coverage. Adapting the type of coverage or the timing of payouts may sometimes increase value and provide a competitive edge without raising coverage or lowering price. Transparency in coverage and product features, however, is both important and extremely difficult in practice. Our previous study mentioned above highlighted the difficulty of comparing coverage of even purportedly "similar" products; when products are difficult to compare and their differences difficult to explain, it becomes more difficult to compete on nuanced value implications. However, understanding the value products have for clients is the first step in the insurer's and the distributor's ability to use that value to its competitive advantage.

The competitive dynamics in this market have another interesting dimension. MBAs sponsored by MFIs have been a dominant business model. Yet their MFI membership bases are aging or otherwise not growing. At the same time, MBA managements must confront competition from other MBAs, from cooperative carriers and increasingly from commercial carriers looking to grab market share with lower prices. MBAs are hampered in this competition with pricing that includes a 50% surcharge for each member's equity contribution. In response, MBAs have sought regulatory flexibility to deploy their capital to build out better infrastructure and distribution to grow their businesses. It will be very interesting to see how this competitive dynamic evolves – it seems likely to yield positive results as it begins with a strong business case up and down the value chain.

References

Koven, R., McCord, M.J., Wipf, J. and Zimmerman, E. (2012). *MILK Brief 14: The Business Case for Life Microinsurance in the Philippines: Initial Findings.* Appleton, WI: The MicroInsurance Centre.

Appendix 1: TSPI distribution costs

Step #1: Calculation of Direct Expenses for the Taguig 2 branch

We studied the insurance processes and estimated the average number of person-minutes spent on each function. The Insurance Officer, whose duties are quality control, training, and development of marketing strategies, is fully allocated to insurance distribution while Area Officers also perform direct distribution tasks. The Insurance Officer's salary and the cost of Area Officer's time spent on insurance comprise the marginal cost of insurance distribution, as shown in Table A1. This ignores (for the moment) other marginal costs such as stationary, fuel, use of equipment, etc., that are incurred as a result of insurance distribution. We will allocate such costs in the second step of our analysis.

Table A1: Marginal salaries resulting from insurance distribution

EXPENSES (PHP)	2011		2012 (Jan-Aug)	
	TOTAL	*Insurance*	*TOTAL*	*Insurance*
Administration	601,199	0	448,205	0
Evaluation & Monitoring	89,382	0	95,147	0
Personnel	3,419,936	212,729	2,132,064	141,348
Training	31,630	0	15,660	0
Interest Expense	450,885	0	333,782	0
TOTAL	4,593,031	212,729	3,024,858	141,348
Total insurance cost as % of premium	*(premium = 2,151,228)*		*(premium = 1,484,295)*	
	9.9%		**9.5%**	

Step #2: Calculation of Allocated Overhead Expenses

Branch overhead is allocated on a business volume basis. For this, the volume of loans (see Table A2) together with total premium may be regarded as the total business volume of the branch for this purpose.

Table A2: Insurance premium as proportion of estimated business volume

Component (PHP)	2011	Jan-Aug 2012
Credit life premium	1,137,480	747,335
Other premium	1,013,748	736,960
Estimated loan exposure	46,449,542	31,561,937
Total business volume	48,600,770	33,046,232
Premium as % of business volume	**4.43%**	**4.49%**

The resulting percentage of business volume (Table A2) is then applied to total expenses to determine the allocation of overhead (in Table A3).

Table A3: Method 2: Marginal salaries resulting from insurance distribution with an allocation of other overhead expenses

EXPENSES (PHP)	2011		2012 (Jan-Aug)	
	TOTAL	*Insurance (4.43%)*	*TOTAL*	*Insurance (4.49%)*
Administration	601,199	26,611	448,205	20,131
Evaluation & Monitoring	89,382	3,956	95,147	4,274
Personnel	3,419,936	354,690	2,132,064	230,763
Training	31,630	1,400	15,660	703
Interest Expense	450,885	19,958	333,782	14,992
TOTAL	4,593,031	406,615	3,024,858	270,863
Total insurance cost as % of insurance premium	*(premium = 2,151,228)*		*(premium = 1,484,295)*	
	18.9%		**18.2%**	

For this method, the personnel expenses allocated to insurance is as follows: Cost of Area Officer's time on insurance distribution processes + 100% of Insurance Officer's compensation + x% of the remaining overhead, where x% is the ratio of premium to total business volume i.e., 4.43% & 4.49% (as derived in Table A2) for each of the two periods respectively. In Table A3 we see that this results in an expense ratio of 18.9% for 2011 and 18.2% for 2012. Overall expenses direct and allocated to insurance are on average approximately PHP 406,000 on an annual basis.

Appendix 2: OIC profitability calculation

Step #1: Calculation of Direct Expenses

There are no significant direct costs aside from staff time. OIC's main branch employs six Loans Department Personnel (LDP) who also process credit life insurance applications when loans are released. We observed LDP's performing enrollment and claims processing and performed time studies on their activities to facilitate the cost calculations reflected in Table A4.

Table A4: Direct cost of OIC staff time

Description	Time	Calculation of annual cost	Amount (PHP)
Enrollment process	19.11 minutes	19.11/ 60 * 104.17 per hour * 2173 enrollments in 2011	72,094
Claims Process	122.5 minutes	122.5/ 60 * 104.17 per hour * 4 claims in 2011	851
Total cost of staff time:			**72,945**

Step #2: Allocation of Overhead Expenses

One could allocate a portion of utilities and other operating expenses but the method would be rather arbitrary. Once again in Step #2 business volume is used as a basis for allocating overhead, as shown in Table A5.

Table A5: Allocation of expenses OIC Main Branch: 2011, PHP

Description	Amount	% of expenses	% allocated to CLPP	Amount allocated to CLPP	Remark
Salaries and Wages	3,959,271	35.80%			
Employees' Benefits	1,912,107	17.30%			Amount was determined by analyzing processes.
SSS, PHIC, ECC, PAG-IBIG	395,163	3.60%	1.10%	72,945	
Retirement Benefit Expenses	392,581	3.50%			
Trainings/Seminars	29,880	0.30%			
Office Supplies	494,064	4.50%			
Power, Light and Water	538,026	4.90%			
Travel and Transportation	560,304	5.10%			One arbitrary basis for allocation of remaining operating expense to insurance is based on annual business volume. As credit life premium rate is 1.5% per annum, allocation is 1.5%/101.5% = 1.478%.
Insurance	103,824	0.90%			
Repairs and Maintenance	411,658	3.70%			
Taxes, Fees and Charges	17,420	0.20%			
Professional Fees	150,000	1.40%			
Communication	146,381	1.30%			
Representation	2,057	0.00%	1.48%	65,206	
Meetings and Conferences	22,980	0.20%			
Subscriptions	7,814	0.10%			
General Support Services	340,330	3.10%			
Litigation Expenses	203,113	1.80%			
Gas, Oil and Lubricants	288,399	2.60%			
Miscellaneous Expense	362,957	3.30%			
Bank Charges	63	0.00%			
Depreciation	733,032	6.60%			
Totals	**11,071,424**	**100%**	**1.248%**	**138,151**	

In Table A6, all results are combined to calculate OIC's profit for credit life.

Table A6: OIC profit calculation

Description	Basis	Annual Cost	% of gross commission
CLPP 2011 commission	25% X 2011 premium	506,900	
Direct Costs		-72,944	-14.4%
Commission less Direct Costs		433,956	85.6%
Allocated Costs		-65,206	-12.9%
Profit on CLPP commissions		368,750	72.7%

Appendix 3: UPLiFT commission and expense calculation

Commission amount

Since the actual commission paid for the CaMaNaVa program is not known, it has to be estimated. In order to do this, disaggregated dependents' data (spouses, parents, and children) is needed since commission rates are on a per insured basis rather than a portion of gross premium. While this information is also not available, one can determine it algebraically by solving for x in the following equation: 94,290 = 50x + (2832-x)*20.

Where:

- 94,290 is the gross premium collected for CaMaNaVa dependents;
- 2,832 is the total number of CaMaNaVa dependents;
- x is the number of spouses / parents / siblings that renewed or enrolled at a gross annual premium rate of PHP 50 (USD 1.14); and
- (2832 – x) is the number of children that renewed or enrolled at a gross rate of PHP 20 (USD 0.46) per annum

Solving for x yields 1255 parents / spouses / siblings and 2832-1255 = 1577 children.

The total commission is calculated in Table A7. The average commission rate is 145,076 / (538,650+94,290) = 22.9%.

Table A7: Commissions earned by CaMaNaVa program Jan-Aug 2012

Insured	Gross Premium (PHP)	Net Premium (PHP)	Commission rate	Enrollments & Renewals	Commission Amount (PHP)
Principal (partner-clients)	150	122.20	27.80%	3,591	99,830
Spouses / parents / siblings	50	24	26%	1255	32,630
Children	20	12	8%	1577	12,616
TOTAL					145,076

Step #1: Calculation of Direct Expenses

To calculate direct distribution expenses we examined the enrollment process, which is as follows:

- Application forms are provided by Prudential
- The same form is filled out annually for both new applicants and renewals
- In the first two weeks of every month, Livelihood Development Officers (LDOs) monitor partners who are due to renew their insurance in the following month to make sure that the coverage will be continuous
- Insurance is compulsory for all partners

There are two types of partner-clients: a) **loan partners** borrow from UPLiFT and also save weekly; and b) **capital partners** have savings deposits in UPLIFT. Insurance premium is deducted annually in one of two ways: automatic deduction from new loans for borrowers and automatic deduction from savings for those without loans.

LDOs receive incentives if they have at least 200 clients and maintain an 80% retention ratio. The maximum incentive is PHP 1500 (USD 34.25) per month. On average, two LDOs receive the maximum in the CaMaNaVa program. Total direct insurance-related operating expenses are detailed on Table A8.

Table A8: CaMaNaVa direct insurance related operating expenses

Jan-Aug 2012	HO Encoder	HO Insurance Staff	Comm / Transpo
TOTALS	9,400	103,200	8,000

MILK examined the CaMaNaVa operation to model the additional direct cost related to processing applications and claims, as summarized in the following tables.

Table A9: Number of insurance applications / renewals (CaMaNaVa) Jan-Aug 2012

Insured Type	No. of apps & renewals processed	Working Days Jan-Aug/12	Avg. no. per day
Partners	3,591	160	22.44
Dependents	2,832	160	17.70
TOTALS	6,423		40.14

Table A10: Estimated time for insurance applications / renewals (CaMaNaVa) Jan-Aug 2012

Process Description	Time spent (minutes)	Avg. time per application/ renewal (minutes)	Who does it?
Complete app / renewal form	4 per form	4.00	10% Branch Manager, 90% LDO
Summary report at branch	15 per day	0.37	10% Branch Manager, 90% LDO
Data encoding at Area Office	15 per day	0.37	Area Encoder
Adjust savings and loans of members	15 per day	0.37	Head Encoder
TOTAL minutes per application / renewal		5.12	

Table A11: Number of insurance claims (CaMaNaVa) Jan-Aug 2012

Insured Type	No. of claims processed	Working Days Jan-Aug 2012	Avg. no. per day
Partners	7	160	0.044
Dependents	7	160	0.044
TOTALS	14		0.088

Table A12: Estimated time to process claims (CaMaNaVa) Jan-Aug 2012

Process Description	Avg. time spent (minutes per claim)	Who does it?
Reporting	7.5	10% Branch Manager, 90% LDO
Preparation of required documents	15	10% Branch Manager, 90% LDO
Review claim	15	Reviewed by LDO and BM who make a recommendation to pay or deny. Claim is forwarded to the Insurance Officer in Central HO who has it approved by the Operations Manager.
Partial payment	7.5	10% Branch Manager, 90% LDO
Full payment	7.5	10% Branch Manager, 90% LDO
TOTAL minutes per claim	52.5	

Table A13 provides a summary of the prior tables to facilitate the calculation of costs.

Table A13: Estimated personnel cost of applications and renewals for CaMaNaVa program Jan-Aug 2012

Process Description (1)	Avg. time per application/ renewal (minutes) (2)	Number of applications (3)	Weighted average monthly salary (4)	Total cost (PHP) (5)
Complete application /renewal form	4	6,423	12,375	33,118
Summary report at branch	0.37	6,423	12,375	3,063
Data encoding at Area Office	0.37	6,423	11,183	2,768
Adjust savings and loans of members	0.37	6,423	17,250	4,270
TOTALS	5.12			43,219

Notes:
- Columns (1), (2), and (3) contain information from tables 12-15.
- Column (4) is the weighted average salary of the staff involved in the application/renewals based on their degree of involvement. For example, it was estimated that the LDO does around 90% of the work in the first two steps and the Branch Manager the remaining 10% hence 12,375 = 90% * 11,833 + 10% * 17,250.
- Column (5) is the total cost of each step in the process for the CaMaNaVa program. For example, completion of the application form costs PHP 33,118 (USD 756) = 6,423 apps * 4 minutes per application * cost per minute (i.e. 12,375 per month /20 days per month / 8 hours per day / 60 minutes per hour)

Table A14: Estimated personnel cost of processing claims for CaMaNaVa program, Jan-Aug 2012

Process Description (1)	Avg. time per claim (minutes) (2)	Number of claims (3)	Weighted average monthly salary (4)	Total cost (PHP) (5)
Reporting	7.5	14	12,375	135
Preparation of required documents	15.0	14	12,375	271
Review claim	15.0	14	12,375	271
Partial payment	7.5	14	12,375	135
Full payment	7.5	14	12,375	135
TOTALS	52.5			947

Notes:
- Columns (1), (2), and (3) contain information from Tables 12-15.
- Column (4) is the weighted average salary of the staff involved in the claims processing based on their degree of involvement. It was estimated that the LDO does around 90% of the work and the Branch Manager the remaining 10% hence 12,375 = 90% * 11,833 + 10% * 17,250.
- Column (5) is the total cost of each step in processing claims for the CaMaNaVa program. For example, claims reporting cost PHP 135 (USD 3.08) = 14 claims * 7.5 minutes per claim* cost per minute (i.e. 12,375 per month /20 days per month / 8 hours per day / 60 minutes per hour)
- Since the full cost of the Insurance Officer is charged to insurance distribution, that person's involvement in processing claims is not included. As well, for simplicity, the time of other personnel involved in claims processing is ignored since it is negligible.

Step #2: Calculation of Allocated Overhead Expenses

The CaMaNaVa program overhead for 2012 amounted to PHP 12,037,075 (USD 274,819) as presented in Table A15. There are various ways in which this could be allocated; in this section three approaches are presented which are partially based on business volume.

Within the study period the CaMaNaVa program collected a total of PHP 632,940 (USD 14,451) in gross premium. During the entire year the program released 9,278 loans amounting to PHP 128,261,500 (USD 2,928,345). Let Insurance Business Volume Factor (IBVF) = 632,940 / (632,940+128,261,500/12*8) * 100% = 0.735%. This factor, a ratio of insurance business volume to total business volume for the study period, is used below.

The simplest method is to merely allocate total expenses on the basis of business volume. To this, a pro-rata portion (6259/21364) of the HO insurance staff is also added reflecting the ratio of CaMaNaVa enrollees to the total enrollment. The total cost of insurance distribution with this method 1 is PHP 89,108 (USD 2.034), as shown in Table A15

Table A15: Allocated cost of distribution for CaMaNaVa program Jan-Aug 2012 (Method 1)

Process Description (1)	Total cost during study period (PHP) (2)	Method of allocation to insurance (3)	Allocated amount (PHP) (4)
HO insurance staff	12,900 X 8 months = **103,200**	100% allocated to insurance. Divide cost based on number of active partners (borrowers and savers)	6259 / 21364 * 103,200 = **30,234**
CaMaNaVa overhead	12,037,074.95 * 8/12 = 8,024,717	IBVF * 8,024,717	**58,964**
TOTAL			**89,198**

In a second method, the cost of executing the insurance distribution processes is derived differently. The salaries and funding for retirement components are subtracted before allocating program overhead to insurance. Since incentives are for overall client retention, these are not subtracted. This results in a slightly higher cost of PHP 103,154 (USD 2,355), as seen in Table A16.

Table A16: Allocated cost of distribution for CaMaNaVa program Jan-Aug 2012 (Method 2)

Process Description (1)	Total cost during study period (PHP) (2)	Method of allocation to insurance (3)	Allocated amount (PHP) (4)
HO insurance staff	12,900 X 8 months = 103,200	100% allocated to insurance. Divide cost based on number of active partners (borrowers and savers)	6259 / 21364 * 103,200 = **30,234**
Staff cost of enrollments and renewals	**43,219**	As computed in (Table A13)	**43,219**
Staff cost of processing claims	**947**	As computed in (Table A14)	**947**
Overhead excluding salaries and funding for retirement	(12,037,074.95 - 5,891,168.25 - 196,811.36) * 8/12 = 3,966,064	IBVF * 3,966,064	**28,754**
TOTAL			**103,154**

Method 3 differs from method 2 in that a different allocation factor based on the estimated cost of insurance processes divided by cost of salaries and funding for retirement. The factor is thus (43,219 + 947) / (5,891,168.25 +196,811.36) * 8/12) = 1.088%. Using this, the allocated cost to insurance is only slightly higher at PHP 117,558 (USD 2,684), in Table A17.

Table A17: Allocated cost of distribution for CaMaNaVa program Jan-Aug 2012 (Method 3)

Process Description (1)	Total cost during study period (2)	Method of allocation to insurance (3)	Allocated amount (4)
HO insurance staff	12,900 X 8 months = 103,200	100% allocated to insurance. Divide cost based on number of active partners (borrowers and savers)	6259 / 21364 * 103,200 = **30,234**
Staff cost of enrollments and renewals	**43,219**	As computed in (Table A13)	**43,219**
Staff cost of processing claims	**947**	As computed in (Table A14)	**947**
Overhead excluding salaries and funding for retirement	(12,037,074.95 - 5,891,168.25 - 196,811.36) * 8/12 = 3,966,064	1.088% * 3,966,064	**43,158**
TOTAL			**117,558**

Table A18: Commissions vs. insurance distribution cost for CaMaNaVa program Jan-Aug 2012

Process Description	Commission revenue	Insurance distribution cost	Profit	Profit %
Method 1 (Table A15)		89,198	55,878	38.5%
Method 2 (Table A16)	145,076	103,154	40,570	28.0%
Method 3 (Table A17)		117,558	27,518	18.97%