CARD MBA
The Philippines

CGAP Working Group on Microinsurance

Good and Bad Practices

Case Study No. 4

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Good and Bad Practices in Microinsurance

This paper was commissioned by the "Good and Bad Practices in Microinsurance" project. Managed by the ILO's Social Finance Programme for the CGAP Working Group on Microinsurance, this project is jointly funded by SIDA, DFID, GTZ and the ILO. The major outputs of this project are:

1. A **series of case studies** to identify good and bad practices in microinsurance
2. A **synthesis document** of good and bad practices in microinsurance for practitioners based on an analysis of the case studies. The major lessons from the case studies will also be published in a series of **two-page briefing notes** for easy access by practitioners.
3. **Donor guidelines** for funding microinsurance.

The CGAP Working Group on Microinsurance

The CGAP Microinsurance Working Group includes donors, insurers and other interested parties. The Working Group coordinates donor activities as they pertain to the development and proliferation of insurance services to low-income households in developing countries. The main activities of the working group include:

1. Developing donor guidelines for supporting microinsurance
2. Document case studies of insurance products and delivery models
3. Commission research on key issues such as the regulatory environment for microinsurance
4. Supporting innovations that will expand the availability of appropriate microinsurance products
5. Publishing a quarterly newsletter on microinsurance
6. Managing the content of the Microinsurance Focus website: www.microfinancegateway.org/section/resourcecenters/microinsurance

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Acronyms

ALIP	All Loan Insurance Package
CARD	Centre for Agricultural Research and Development
CCA	Canadian Cooperative Association
CIDA	Canadian International Development Agency
DFID	Department for International Development
DTI	Department of Trade and Industry
EC	Employment Compensation
GAF	General Administration Fee
GDP	Gross Domestic Product
GoP	Government of the Philippines
GSIS	Government Service Insurance System
GTZ	German Technical Assistance
ILO	International Labour Organisation
IT	Information Technology
K	Thousands
LRF	Loan Redemption Fund
m	Millions
MBA	Mutual Benefit Association
MFI	Microfinance Institution
MMF	Members Mutual Fund
MRI	Mutually Reinforcing Institutions
n	Number of units or actions
N/A	Not Available
NGO	Non-governmental Organisation
PhilHealth	National Health Insurance Program
PhP	Philippines Peso
PPP	Purchasing Power Parity
RHU	Rural Health Units
RIMANSI	Risk Management Solutions, Inc.
SSS	Social Security System
STEP	Strategies and Tools against Social Exclusion and Poverty
TESDA	Technical Education and Skills Development Agency
TPD	Total and Permanent Disability
US$	United States Dollars
YTD	Year-to-date

Executive Summary

The Center for Agriculture and Rural Development Mutual Benefit Association—CARD MBA— is part of the system of CARD Mutually Reinforcing Institutions (MRI) that also includes CARD Bank, CARD Inc. (a non-governmental organisation or NGO), and the CARD Training Center. The MBA offers life and disability insurance, as well as an obligatory provident fund to CARD Bank and CARD Inc. members. For CARD's borrowers, MBA offers the All Loans Insurance Package (ALIP), which is a loan redemption scheme. These products improve the overall services to CARD members, and the mutually reinforcing nature of the relationships makes the operations of the MBA extremely efficient.

CARD operates in an environment where there is helpful legislation for mutual benefit associations. This situation has allowed CARD and others to offer insurance to their members, while the regulators can be vigilant in ensuring the viability of the schemes.

In 1994, several years before it created the bank or the insurance company, the CARD NGO began offering basic life insurance packages to its members. As these services were popular, CARD offered additional and more complex insurance products. In 1996, the organisation decided to introduce a pension plan that provided members with PhP 300 (US$5.45)[1] per month after their sixty-fifth birthday and until death, in return for premiums of PhP 2.50 (US$0.05) per week. This product was extremely popular with members. Unfortunately, CARD had not adequately assessed the impact of this product on the institution. When an assessment was done, it showed that a member would have to pay premiums for two years just to cover one month of the benefit. Extrapolating from there, management realised that the whole institution was at risk, and that fulfilling its obligation to members would completely diminish CARD's capital.

From this incident, CARD's management learned that an insurance business must be run by insurance professionals. Management also concluded that the insurance business should not be tied to the capital of a microfinance institution (MFI).

Management extricated CARD from this liability and transferred the assets of the fund to the members who then started a separate company with a separate board. An actuary assessed the risks and helped re-price the products. Soon after, a professional insurance executive was hired as the managing director. The MBA still participates in the CARD Mutually Reinforcing Institutions because it allows the insurer to deliver its product efficiently, and to pass on the savings to the low-income market in the form of cheaper premiums. The insurance business has proven profitable so far and with proper management it should continue on this path.

Today CARD MBA provides life insurance coverage to nearly 600,000 low-income Filipinos. Some of the key lessons from CARD MBA include:

[1] 1US$ = 56.23PHP (http://www.oanda.com/convert/classic)

- When the board of an insurance company is comprised of only members or policyholders who have virtually no experience in corporate governance, it is necessary to have an advisory group that is experienced and has the authority to guide the board. Such an advisory committee has been critical to the successful oversight of CARD MBA.

- **Insurance professionals are required** to develop and manage insurance products. Aristotle Alip, the managing director of the CARD MRI, notes that he would never again take insurance risk without an insurance professional managing the company and without an actuary to help them develop the premium and understand their risk.

- MBA field staff are selected from the organisation's policyholders for **one-year terms**. Although this requires much training, CARD sees several benefits to this strategy:
  - The short term limits the ability of coordinators to get too clever (in terms of fraud issues)
  - It builds a large pool of members that not only understand, but have experience working with the insurance products
  - It generates more knowledgeable policyholders, improving their role in MBA governance.

- When insurance products are offered to a member's family, the insurer has no idea of the health condition of the rest of the family. People could join knowing that a family member was gravely ill so that they could make a quick claim. CARD found that husbands of their members die 3.2 times the rate as their members (who are virtually all female). The **contestability clause** introduced by CARD has had a positive result in curbing such adverse selection.

- A microinsurance product can be developed and implemented reasonably well with **limited donor funding**. The CARD MBA has received no funding directly from donors, and has developed a set of rather simple insurance products that have the potential to assist many low-income households. However, donor funding to other CARD agencies has provided important infrastructure and the delivery mechanism for CARD MBA to operate effectively and efficiently.

- New product development requires a clear understanding of **demand**, *and* a clear understanding of what impact the potential product is likely to have on the **institution**. The pension scheme was seen as a great benefit to the members, but there was no assessment of its impact on CARD until it was too late to save the organisation from significant grief. CARD MBA demonstrated that it learned this lesson when management decided to abandon a "dread disease" health insurance product during the pilot phase, despite a strong demand, because it realised it could not control the product sufficiently.

1. The Context

Table 1: Macro Data

Gross National Income (US$ Billions) (PPP)	342
Population (millions)	80
Population density per km^2	266
Percentage urban / rural population	59% / 41%
Gross National Income / Capita (US$) (PPP)	4,280
GDP Growth Rate	4.6
Inflation	6.0
Exchange Rate (current, Philippine Pesos per US$1)[2] (June 2004)	55
Infant Mortality (per 1000 live births)	26
Under Five Mortality (per thousand)	38
Maternal Mortality (per 100,000 live births)	240
Access to improved water source (% of population)	86%
Health Expenditure as % of GDP (public/private/total) (2001)	1.6% / 1.8% / 3.4%
Health Expenditure per capita (US$) (1997-2000)	33
Doctors per thousand people	1.2
Hospital beds per thousand people (urban/rural)	N/A
Literacy rate	95.5

(Source: World Development Report, 2004)

1.1 Role of the State in Insurance

The Philippine government has proclaimed continuing support of the insurance industry because it expects insurance to boost national savings and further the development of the capital markets. Insurance legislation is based on the Philippines Insurance Code (Presidential Decree No. 1460). There are relatively frequent Regulatory Issuances amending the code (seven in 2001). The relevant legislation for the Center for Agriculture and Rural Development (CARD) is Chapter VII. Mutual Benefit Associations and Trusts for Charitable Uses, Sections 390 – 409. Some key points paraphrased from this legislation include:

- An MBA must secure a license from the Commissioner before commencing operations. Every association receiving such a license shall be subject to the supervision of the Commissioner, provided that any such association has an actuary.
- An MBA must deposit an initial minimum amount of PhP 10,000 (US$182). The Commissioner will require an MBA to have a Guaranty Fund with at least ten percent of the MBA's assets, up to the amount of minimum capital required by a full insurance company (currently PhP 50m or US$900,000).
- All MBAs must issue membership certificates.
- Every membership certificate must have a value of at least 50% of dues paid after three continuous years of contributions.
- MBA members have the right at any time to change their list of beneficiaries, as long as they have not waived this right.

[2] This exchange rate will be used in all calculations of current figures in this paper.

The Insurance Commission has the authority to produce periodic Circular Letters setting relevant regulation for the industry. It also has the authority to impose sanctions on those that are not in compliance with these regulations.

In 2001, the Insurance Commission conducted examinations on sixty-two insurance companies (of 151, or 41%), eighteen Mutual Benefit Associations and Charitable Trusts (of 32, or 56%), and sixty-seven brokers (of 161, or 42%).

In 1997, the Insurance Commission launched the government's 20/20 vision. This aimed to increase the number of Filipinos with any type of insurance by 20 percent by the end of 2000. Besides that initiative, the primary way that the State promotes insurance is through the maintenance of a well-supervised insurance industry providing confidence to the population.

1.2 Insurance Industry Basics

Table 2: Insurance Industry Basics (31 December 2002)

Issues	Observations
Name of insurance regulatory body	Insurance Commission
Key responsibilities of the regulatory authority	The insurance commission is focused on licensing and supervision.
Minimum capital requirements for insurance license (also for microinsurance if any separate regulation or weavers granted)	Non-Life – PhP 50m (current US$0.9m) Life – PhP 50m (current US$0.9m) Composite – PhP 100m (US$1.8m) Member Benefit Association – 10% of total assets as guarantee fund up to PhP 12.5m (US$227K)
Other key requirements for an insurance license	Articles of incorporation, By-laws, certification of consulting actuary, actuarial study of product and services, rules and regulations of MBA
On-going capital requirements for an insurance company	N/A
Other key requirements for regulatory compliance	Annually (on or before June 30) filing of Renewal of License and Annual Statement
Minimum capital requirement for reinsurer	None so far but reinsurer must be stable and licensed by the insurance commissioner
Number of regulated private insurers (2002)	139
Value of annual premiums of regulated private insurers (2001)	PhP 49.5billion (US$900m)
Number of regulated public insurers / value of total annual premiums	N/A
Number and type of other regulated insurance organisations (2002)	14 Mutual Benefit Associations and 13 Charitable Trusts
Value of annual premiums of other regulated insurance organisations	Total assets of MBAs PhP 8.4billion (US$152m) for Mutual Benefit Associations (80% is held with the top three (not CARD))
Number of re-insurers	3
Value of annual premiums of reinsurers	N/A
Other unregulated organisations, if existing, that offer insurance	N/A

Issues	Observations
Certification requirements for agents	Examination for general agents after training/seminar (57% of those examined in 2001 successfully passed). Agents of MBAs do not require licensure.

Agents and brokers. There are three types of agents in the Philippines: ordinary, general and resident (see Table 3). Ordinary agents are those affiliated with an insurance company who have applied to the commissioner, passed an insurance agent exam (or had the requirement waived), and paid a fee. The commissioner also assesses the integrity of the applicant; persons with a record of fraud, misrepresentation or misappropriation are prevented from becoming agents. General agents have a signing authority with a particular insurer and are empowered by a written power of attorney duly executed by an insurance company, and registered with the Commissioner. Resident agents are general agents who reside in the Philippines representing an offshore insurance company.

All regulations relating to agents refer to them as persons and thus this might become a problem for microfinance institutions that are interested in serving as an agent for a particular insurance company.

A broker's license requires the following: an approved application from the commissioner, a surety bond of at least US$1,800, two errors and omissions policies from separate insurance companies in the Philippines, passing a brokers' exam, and proven moral integrity.

Table 3: Licensed Insurance Intermediaries and Technical Support Entities – 2002

Sales/Technical Group	Total
Ordinary Agents	***34,961***
Life	26,000
Non-Life	8,961
General Agents	***562***
Life	67
Non-Life	495
Brokers	***168***
Insurance	127
Reinsurance	41
Non-Life Underwriters	***604***
Resident Agents	***62***
Actuaries	***44***
Adjusters	***65***
Total	36,466

The Insurance Market. As at 31 December 2001, the latest date for such records from the Insurance Commission, the insurance industry in the Philippines had 33 life insurers and 99 non-life insurers; approximately 17 percent of the insurers are foreign-owned (see Table 4).[3]

[3] Source: Republic of the Philippines, Department of Finance, Insurance Commission, "2001 Annual Report".

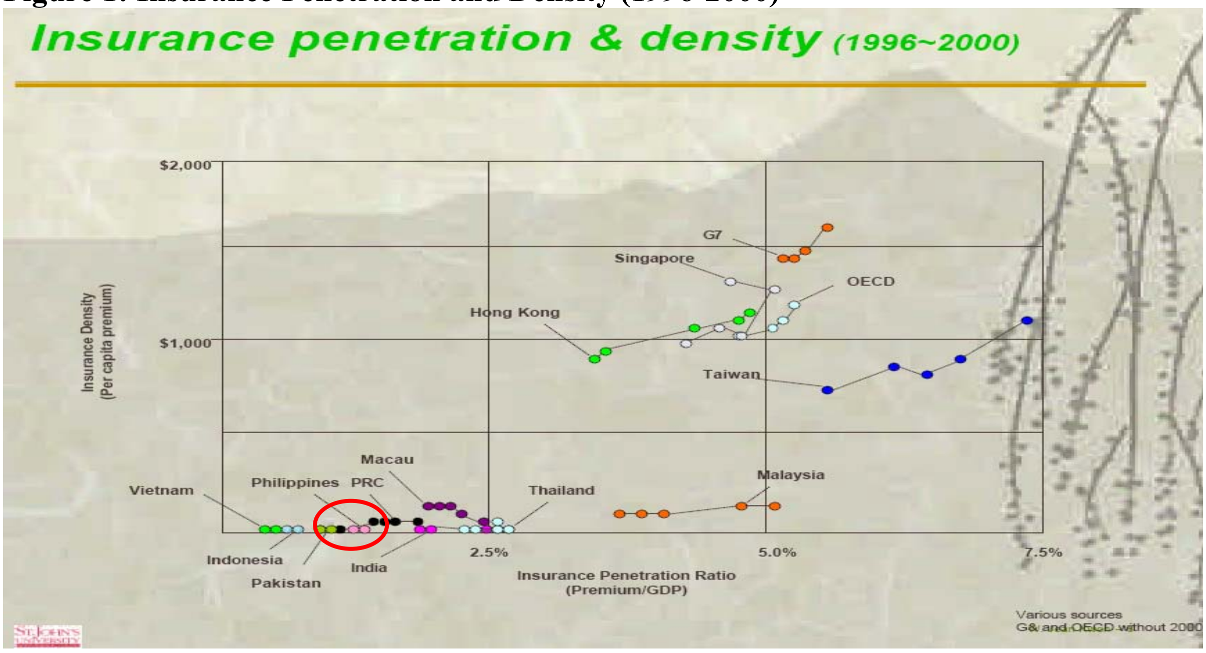
Table 4: Philippines Insurance Industry Structure

Company Classification	Direct Insurers			Professional Reinsurers	Total
	Composite	Life	Non-Life		
A. Domestic	2	21	89	3	115
B. Foreign					
Domestically incorporated	2	12	5	--	19
Branch	--	--	5	--	5
Total	4	33	99	3	139

Insurance penetration and density are common measures of the level of insurance provision and uptake in a country.[4] In the Philippines, insurance penetration (total premiums divided by GDP) is slightly less than 1 percent. Penetration compares poorly to other countries in the region including Thailand, India, and Malaysia, but slightly better that Vietnam, Indonesia, and Pakistan. This finding suggests that there is significant room for growth of the insurance market in the Philippines; the growth of the insurance industry is not keeping pace with the growth of the economy.

Regarding insurance density (total premiums divided by total population), it has increased from US$9.60 in 2001 to US$11.11 in 2002 (in current US$), although this remains extremely low in comparison to the G7 and OECD averages (see Figure 1).

Figure 1: Insurance Penetration and Density (1996-2000)



[4] W. Jean Kwon, Toward Free Trade in Services: Emerging Insurance Markets in Asia

Taxation. The government heavily taxes the insurance industry in the Philippines. The tax burden for insurance companies is as follows:

Non-Life Insurance:

Premium Tax	10.0%
Local Tax ("LDU")	0.5%
Fire tax	2.0%
Document Tax	12.5%
TOTAL	25.0%

Life Insurance:

TOTAL	12.5% - 15.0%

1.3 The Role of the State in Social Protection

Social protection in the Philippines is largely provided by three organisations: the Social Security System (SSS), the Government Service Insurance System (GSIS) and the National Health Insurance Program (PhilHealth). The GSIS provides protection to government employees; the other two schemes are relevant for workers in the informal economy.

Social Security System

The SSS offers social security and employment compensation for workers in the private sector. Services and benefits, paid in relation to the member's wages, are summarised in Table 5.

Table 5: Social Security System Benefits

Cover	Benefits
Sickness	Daily cash allowance as wage replacement during period of sickness
Maternity	Daily cash allowance as wage replacement during period of inability to work due to childbirth or miscarriage
Disability	Monthly pension or lump sum benefit to cover any "restriction or lack (resulting from impairment) of ability to perform an activity in a manner or within the range considered normal for a human being"
Retirement	Monthly pension or lump sum to a member who can no longer work due to old age
Death	Monthly pension or lump sum to the beneficiaries of a deceased member (PhP 1000 – 2400, US$18 - 44)
Funeral	Grant of PhP 20,000 (US$364) paid to whoever pays the burial expenses of a deceased member or pensioner
Employee Compensation (EC)	Medical and rehabilitation services and cash income benefits to workers who suffer work-related illness or injury resulting in disability or death. Paid simultaneously with other applicable benefits
Member Loans	Salary loans, calamity loans, educational loans, and housing loans

Contributions towards the SSS scheme cost 9.4% (employer 6.07% and employee 3.33%) of the average monthly salary up to PhP 15,000 (US$273). In addition, contributions for

Employee Compensation (EC), paid by the employer, are 1% of the average monthly salary to a maximum of PhP 1,000 (US$18).

Membership in the SSS is open to self-employed and other-employed persons, although these groups have to pay both the employer and employee portions. The self-employed and voluntary members make their contributions at SSS offices or through direct debits from their bank accounts. Employed members' total monthly contributions (including employer paid portions) typically range from PhP 104 to 1,420 (US$1.90–$25.80). The monthly range for self-employed or voluntary members is PhP 94 to 1,410 (US$1.70–$25.60). The SSS experiences about 60 percent payment delinquency and numerous unpaid loans.

PhilHealth

In 1999, the government recognised the failings of the state health insurance programmes and completely restructured them with the objective that "the State shall adopt an affordable, adaptable health system covering all Filipinos" within ten years. The result was the Philippines Health Insurance Corporation (PhilHealth), which provides health care financing for employees, self-employed and others. PhilHealth offers products to four distinct groups, as summarised in Table 6.

Table 6: PhilHealth Product Groups

Group	Product
Employer paying	Employers are mandated to cover the health care expenditures of staff
Individual paying	For the self-employed
Non-Paying Program	People who have contributed to the SSS or GSIS for more than ten years, and are over sixty years old become lifetime members[5]
Indigent Program	Local government units sponsor very poor families with a premium contribution based on the total income of the municipality; sponsorship may be total or partial

The self-employed pay between PhP 100 and PhP 187 (US$1.80-$3.40) per month, which covers the member, spouse, all children under twenty-one years old, and the member's parents that are over sixty years old. The benefits are generally related to hospitalisation: room and board, medications, diagnostic procedures, and a subsidy to help with physician costs and operating room fees. The policy also covers major therapies and minor surgery on an outpatient basis.

To control quality, PhilHealth has a team to accredit participating health care facilities by visiting each facility at least twice per month. Accreditation, for both public and private facilities, is based on a checklist of requirements. Not all facilities are approved. In Laguna, the district in which CARD's head offices are located, thirty-four hospitals and nineteen rural health units (RHUs) are accredited; four hospitals did not pass the accreditation requirements.

[5] This benefit is not covered by either SSS or GSIS. It is paid from the balance of the Medicare funds transferred from these programmes to PhilHealth at the start of their operations. PhilHealth is the mandated administrator of the Medicare programme under the National Health Insurance Act of 1995.

PhilHealth, with assistance from GTZ, ILO STEP, and the Canadian International Development Agency (CIDA), is planning to redesign its product for the self-employed to respond more appropriately to the needs of this market. This revision is planned for mid-2004. Simultaneously, PhilHealth is meeting with large MBAs and MFIs to discuss means of using these entities as agents for the new PhilHealth product. Active discussions have already begun between CARD MBA and PhilHealth.

1.4 Profile of Microinsurance

Microinsurance in the Philippines is generally defined as insurance for self- and un-employed persons who traditionally have not had access to formal sector insurance or long-term savings.

Interest in microinsurance is growing in the Philippines as evidenced by the number of organisations that have approached CARD MBA to assist them. PhilHealth's effort to extend full heath insurance coverage, and its collaboration with MBAs and MFIs, shows the positive attitude of the government. Microinsurance is seen as such a strong emerging market that CARD MBA is developing a microinsurance resource centre (see the discussion of Risk Management Solutions, Inc. in Section 7.1)

The government has taken an open but professional approach to microinsurance. The Mutual Benefit Association and the partner–agent model are both being implemented in the Philippines. No adjustment to the insurance law has been made to accommodate microinsurance largely because the mutual benefits association approach appears sufficient. MBAs are the primary mechanism for insurance delivery to the low-income markets. There are said to be hundreds of unregistered MBAs in the Philippines.

The requirements of an MBA are relatively straightforward and manageable; any non-charitable organisation that takes regular, fixed dues from members can create an MBA. These are "mainly for the purpose of paying sick benefits to members, or of furnishing financial support to members while out of employment, or of paying to relatives of deceased members of fixed or any sum of money."[6] MBAs must be member owned and managed. Some community based health microinsurance programmes fall under this definition.

Although most MBAs are small and unregistered, once they become significant enough to be "noticed" in terms of volumes and member numbers they need to be registered. MBA registration provides better protection for members since the oversight reduces the scheme's vulnerability to fraud and mismanagement. The Mutual Benefit Associations Act thus limits the number of significantly sized informal or unregistered insurers. In practice, the insurance commission, due to the limit of its supervisory capacity, does not aggressively challenge non-registered MBAs.

The benefits of an MBA to institutions like CARD are that the capital requirement is low, and registration and licensing are relatively easy for a legitimate institution. Plus members have a heightened level of security if the Insurance Commission will supervise the MBA

[6] The Insurance Act of the Philippines, Title 1, section 390.

management. However, an MBA license also restricts insurance sales to members, thus severely limiting the potential market for microinsurance products. If MBAs had to comply with the requirements of a full insurance license, most would be unable. For a full insurance license, the capital requirements are heavy and the tax burden drives up the premiums. These advantages and disadvantages are summarised in Table 7.

Table 7: Advantages and Disadvantages of MBA Registration

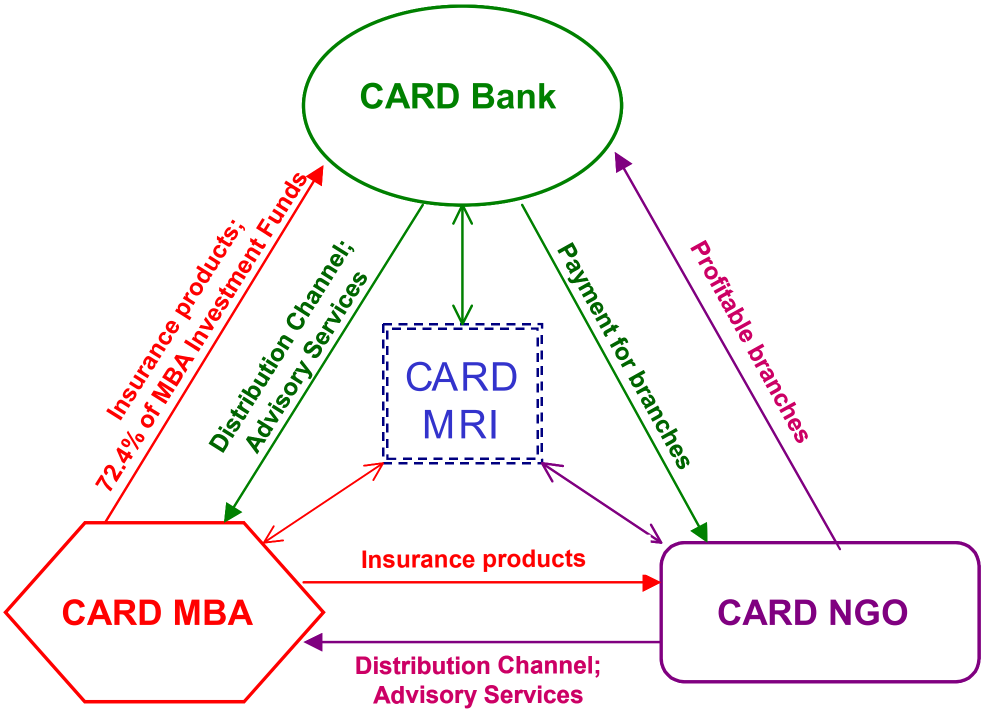
Advantages as an MBA	Disadvantages as an MBA
(1) It is tax-exempt as a non-stock and non-profit entity	(1) It cannot pay cash dividends to its members being non-stock entity.
(2) Since profit is not the main objective, service to the members becomes the focal point of its existence.	(2) It cannot offer its services to the public for additional premium contributions. Thus the market is limited.
(3) Per existing laws, the members own the association and will be part in policy making and its management. This is an advantage because the members know what services they need so any products developed will address their needs.	(3) Members' consultation is a must before a major decision could be implemented. This can delay implementation (This can be an advantage or disadvantage depending on the issue at hand).

2. The Institution

2.1 History of the Institution

The CARD MBA is a microinsurance institution serving the members of CARD Bank and CARD, Inc., an NGO, as a part of the CARD Mutually Reinforcing Institutions (MRI). The relationship between these organisations is described in Figure 2.

Figure 2: MRI Structure



CARD was founded as a non-profit, non-governmental organisation in December 1986 by 15 rural development practitioners to improve the quality of life of poor Filipinos, particularly those residing in the countryside. Since inception, it has aimed to provide credit to landless women based on the Grameen Bank model. After experiencing significant success, the NGO created CARD Bank in 1997 to further pursue the goals set out in the initial mission statement. Starting a bank allowed CARD to offer more product options including the ability to collect savings, which management deemed important for clients.

In the current arrangement, CARD NGO provides initial credit services within certain geographic areas. When its branches are matured and profitable, they are sold to CARD Bank. In this way the bank and the NGO, renamed CARD, Inc., have a reinforcing and mutually interdependent relationship. Today, together they are providing microfinance to more than 120,000 low-income women.

CARD MBA was established in 1999, the result of spinning-off the Members Mutual Fund (MMF) from CARD, Inc. The MMF provided burial benefits, quasi-credit life insurance and pension services financed from cash contributions made by CARD members and kept in a separate fund. After the spin-off, the obligations of CARD MMF were transferred to CARD MBA, seeded with the net funds of MMF, with interest, totalling PHP 4,800,000 ($85,400).

In 2001, CARD MBA received its formal license to operate as an insurance institution from the Insurance Commission of the Government of the Philippines.

Origins of the MBA[7]

It is fair to say that CARD MBA, an important element of their CARD system, arose from a severe miscalculation resulting from too much good heart. One must go back almost a decade to understand where CARD MBA came from.

At an early stage of the NGO's operations, in the early 1990s, a survey was conducted to assess the potential new services that members wanted. High on that list was access to life insurance. Members wanted to protect their families from repaying an outstanding loan if they died and to ensure that funds were available to cover the increasing burial costs. Another demand was for a mechanism that would allow members to participate in a long-term savings programme until retirement, and then receive a pension to cushion the loss of income when they are no longer capable of working.

During this period, management began receiving business offers from commercial insurers to provide services to CARD members. Faced with demand from membership, which would soon be met by external parties, CARD decided that it could better serve its customers by developing microinsurance products itself than by passing the business to an insurer. Thus, in April 1994, CARD developed its first insurance product and the Members' Mutual Fund (MMF) was born.

Management notes now that they would never offer another microinsurance product without professional insurance management, and that going on their own initially was a decision they would not make again.

This Members' Mutual Fund was initially designed to provide loan balance coverage plus burial assistance in the case of borrower death. Members would finance these benefits from premiums paid to CARD. The assumptions underlying the MMF were developed through a combination of member requests for coverage and competitors' pricing of similar products, rather than on a factual and actuarial analysis of the proposed arrangement.

This coverage of the loan balance plus a death benefit of PhP 2,500 to 5,000 (US$55 – US$91) was based on a weekly per borrower premium of PhP 2.00 (current US$0.04). This product was well received and appeared to encourage other members to join.

[7] This narrative of the buildup and transfer of the MMF to the MBA is based on discussions with current management both during this visit and previously, and on Section II of CARD Monograph 9: "An Innovation in the Microfinance Industry in the Philippines", by Dr. Jaime Aristotle B. Alip (CARD MRI Managing Director), and Alexander M. Dimaculangan (CARD MBA General Manager), October 2003.

Confident that the product was responding to an important financial and social need of low-income people, CARD decided to extend the funeral benefit to include the member's legal spouse and eligible children (an unmarried member could insure her parents if they are over 60 years old). The same level of benefits was added for these additional family members (spouse and up to three legal children) at an additional cost of PHP0.50 (US$0.01) per week. The premium for the compulsory cover was now PHP2.50 (US$0.05) per member per month. With this move, CARD increased the member benefits five-fold (in general) while the premium increased by a mere one-fifth. Still no review had been made by an actuary to assess the potential risk of this product, and although CARD knew its members rather well, it had no screening for the health status of the other family members.

CARD cites this MMF product at this point as an important source of customer satisfaction. Management believes that the insurance coverage helped to increase its membership and decrease the desertion rate (for more details see Section 4.9).

After this initial introduction and the seeming success of the MMF, CARD's Managing Director took an extended leave to pursue other professional matters.

Dangerous Benefits

In December 1996, recognising the needs of its older members, the potential for disability among all members, and (over) confident from the apparent initial success of the MMF in its basic and expanded form, management decided to expand the product coverage yet again. This time, in addition to the expanded MMF benefits, CARD would offer a pension benefit to members reaching sixty-five years old, and to those that were permanently disabled, for only PhP 2.50 more per week. Thus, the new compulsory contribution was PhP 5.00 (US$0.098) per week for all coverage. This pension scheme was implemented without testing and without actuarial input.

Upon attaining the age of sixty-five, or being declared permanently disabled, the new product offered a lifetime monthly pension between PhP 300 and PhP 600 (US$5.45 to US$10.90) depending on a member's longevity with CARD.

Under this arrangement, with a fixed 15% rate of return on invested premiums, it would take twenty-four months of premiums from a member to pay for one month of her lowest pension – PhP 300. The number of months falls to twenty-three for a rate of return of 20%, and to twenty-two months for a rate of 25%. That is nearly two years to simply accumulate one month's worth of pension payment! There was no minimum participation period before the pension was available; members just had to turn sixty-five years old, although newer members would only receive the minimum pension.

After nearly two years of implementation, the initial Managing Director returned to his position at CARD. During the 1998 audit soon after his return, CARD's external auditors advised management that the pension situation was financially unsustainable. They had noted the liabilities building up under the MMF. Based on the auditors' insights, management

[8] Slight differences are due to rounding.

realised that this liability was a very serious threat. Even though the average age of a CARD member was 43.6 (37.1 in 2004), the potential volume of soon-to-be pensioners would quickly deplete CARD's capital. The pension fund would destroy all the progress CARD had made, and indeed the institution itself.

Moving the Mountain

After seeking legal advice to extricate CARD from this mountainous liability, it was decided to shift the insurance operations to a separate mutual benefit association that was completely owned and managed by members. In September 1999, the NGO's board and management unanimously agreed to spin off the MMF operations into an MBA.

Some of the considerations of the board and management included the following:

- Whatever the outcome of the transfer, it was critical that the members owned and controlled the microinsurance services, which precluded working as an agent with regulated insurers.
- CARD was in the midst of rapid growth, and wanted to reduce the distraction posed by the microinsurance problems.
- Any insurance entity that would be related to CARD would be managed by insurance professionals and actuaries would be utilised regularly. The CARD MRI Managing Director, Dr. Alip, notes: "Insurance is not just another microfinance product. Its requirements are much different, and its risks are much different. I will never manage insurance again without professionals."
- Professionalising the insurance operations would also allow for more member responsive products and realistic premiums with actuarially corresponding benefits.

> A key lesson of the pension scheme was that insurance professionals are required to manage insurance business.

The issue of member ownership was important to CARD because it had significant client balances and capital in the MMF that essentially belonged to the members already. CARD needed to provide an acceptable alternative to members in its effort to extricate the organisation from the pension fund liabilities. As in many countries, the insurance industry had a poor reputation among the low-income population. Thus, offering to provide the net balance of the MMF as capitalisation for a new MBA was the most likely scenario to get members to agree with the transfer.

The implementation of this decision was difficult and extremely time consuming. The two key activities in bringing about this transition were:

(1) Top management met with members from all branches to explain the problem, and actually apologise for getting them into such a difficult situation. Member understanding and approval of the CARD's plan was critical, not just from a legal perspective, but from the perspective of member confidence. In explaining their plans to the members, managers expressed that the new MBA would belong to the members, and that it could offer a better range of products without risking the health

of the core institution. Additionally, management committed to paying to the MBA the funds collected from pension contributions, less claims paid, plus interest. The NGO took no remuneration for operating the MMF pension programme.

(2) Once the agreement and understanding were obtained, management was able to acquire a signed affidavit from the members, relinquishing CARD from its liability to pay them a pension.

License and Registration

After the public relations and legal issues were sorted out, CARD had to obtain a license for the member-owned and -managed MBA from the Insurance Commission. In the process, actuaries assessed the risk and redesigned the pension plan into a provident fund—a long-term savings plan—with a single payment at age sixty-five inclusive of principal and interest.

At the same time, premiums were adjusted to PhP 5.00 (US$0.09) per week for the provident fund and an additional PhP 5.00 for the life insurance. The credit life portion was charged separately as 1.5 percent of the loan. The credit life was separated because its risk is related strictly to the loan value and thus must be priced based on the loan amount, while the other products are related to pre-determined benefit amounts.

> This transition was only possible because of CARD's ability to understand and work with its members.

After being recognised as a legal entity by the Securities and Exchange Commission in 1999 and registering as an MBA in 2000, CARD MBA was officially licensed by the Insurance Commission as a Mutual Benefit Association on May 22, 2001. This transformation from MMF to MBA is a testament to CARD's ability to understand and work with its membership. In an environment less bound by common purpose, or more litigious, such a transformation and extrication from liability would probably have been impossible.

The initial mandate for the MBA's new General Manager was to work toward converting the MBA into a regulated commercial insurance company. In considering the insurance license, CARD saw great benefit in expanding product lines and markets. The key opportunities in obtaining a full insurance license include:

- Offering insurance products to the public, allowing the insurer to expand its market beyond CARD members.
- Offering "reinsurance-like" products to non-formal microinsurance providers. This would allow CARD to have a stronger role in overseeing and assisting smaller MBAs. It would also allow CARD MBA to be a reinsurer, which would fit nicely with the organisation's plans to create a microinsurance resource centre.
- Opening the network to non-life products

> The tax burden on insurance companies stopped CARD MBA from obtaining a license as a regulated commercial insurance company.

However, when MRI management realised the tax impact of creating a full insurance company, they decided to remain regulated as a mutual benefit association for the time being. None of these opportunities can overcome the tax burden.

Table 8: CARD Timeline of Significant and Relevant Events

Year	Event
1986	CARD founded
1987	
1988	Implemented training focused program
1989	Pilot tested solidarity group lending
1990	
1991	
1992	
1993	
1994	Members Mutual Fund commenced
1995	MMF adds spouse and dependents
1996	Pension plan added to MMF
1997	CARD Bank licensed as rural bank
1998	Audit identifies problem with pension plan
1999	CARD MBA registered with SEC
2000	MBA regestered with insurance commission
2001	MBA license received from commissioner
2002	CARD Training Centre Opened
2003	MBA offers cover to non-client individuals and institutions
2004	

Table 9. Insurance Organisation Basics

Issues	Observations
Legal structure	Mutual Benefit Association
Registration status	Registered with Securities and Exchange Commission (1999), Insurance Commission (2001), and Bureau of Internal Revenue
Regulation status	Regulated by the institutions mentioned above.
Start of corporate operations	1999
Start of microinsurance operations (year)	Started as an Members mutual fund as a product of the CARD NGO 1994, then converted to an MBA in 1999 finally receiving its insurance license in 2001
Core business	Provision of Life Insurance, Provident Fund, & Loan Redemption cover to members of CARD Inc. and CARD Bank.
Target market – core business	CARD Inc. and CARD Bank Members
Target market – insurance business	CARD Inc. and CARD Bank Members; Members of other MFIs and cooperatives
Geographic area of operation	Region III, IV, and V: Bulacan; Provinces of Laguna, Batangas, Quezon, Mindoro Oriental, Mindoro Occidental, Marinduque, Camarines Sur and Masbate)
Development, marketing, or servicing policies with other institutions	On a case-to-case basis, CARD MBA is providing MBA orientation to others. Will formalise this through RIMANSI (see Section 7.1).
Reinsurance provider, provider type	None at present. It had been reinsured but the reinsurer did not comply with the agreement and will likely be taken to the commercial court (see Section 2.8).
Reinsurance type	Formerly a stop-loss policy

Table 10: Insurance Organisation Basics - Trends

	2003	2002	2001	2000
Total assets (US$)	2.36m	1.26m	0.50m	0.25
Annual budget (US$)	N/A	N/A	N/A	N/A
Total capital (US$)	0.83m	0.44m	0.21m	0.17m
Number of branches (NGO & Bank)	75	47	30	27
Total number of all clients	116,395	69,223	49,887	35,704
Total number of microinsurance policyholders	116,395	69,223	49,887	35,704
Total number of microinsurance insured lives	581,975	346,115	249,435	178,520
Number of full time head office microinsurance staff	7	6	5	2
Number of microinsurance coordinators (mandated to work at least one day per week)	77			
Total number of provincial offices	2	-	-	-
Number of full time staff in provincial offices	6	-	-	-
Staff turnover (%)	9% (1 person)	-	-	-
Microinsurance marketing costs (thousands of US$)	19	17	7	2

2.2 Organisational Development

CARD MBA maintains its head office in San Pablo City, where it shares its premises with CARD Bank, CARD, Inc., and CARD MRI. The mutual benefit association employs eleven staff at the head office and twelve staff at four provincial offices (the fifth provincial office will be opened by July 2004 bringing total provincial staff to fifteen). The MBA also maintains seventy-five part-time MBA coordinators—not employees, but CARD members who perform field functions for the MBA in return for a stipend and expense reimbursement.

Governance

The **Board of Trustees** is the main strategic policymaking body of MBA, consisting of seven members selected through a democratic process from among the insured members of CARD Inc. and CARD Bank (see Box 1). Tasks of the Board include policymaking, approval of general directions of development and operations, approval of annual financial projections and operating plans, and the maintenance of contact with member base. The Board meets six times per year at the head office of CARD MBA. The MBA pays Trustees a monthly stipend of PhP 1,000 (US$18) and reimburses travel expenses for official business. There is a formal training to help members understand their roles; significant guidance is provided to the Trustees by the advisory board, comprised of the senior managers of the CARD MRI organisations (see below).

The **MBA President,** elected for a two-year term, is the head of Trustees. This non-executive position is similar to a Chairman in a US corporate structure (but not CEO). The president supervises and coordinates the activities of the Board of Trustees and often represents the MBA on official business. As with other trustees, the President is paid an honorarium of PhP 1,000 (US$18) per month, and is frequently in the head office to approve actions, review activities, and attend meetings. Ms. Pilar Garcia, immediate past President, noted that before her presidency she had a small shop selling compact disks. After her election, she had to change this activity because of the time demands. Thus, she started a “mini-restaurant” and began raising ducks, both of which freed her to actively oversee CARD MBA.

Box 1. The Trustee Election Process

MBA membership consists of the members of CARD, Inc. and CARD Bank. The election process for the MBA Board of Trustees follows the organisational lines of the NGO and bank. Members are organised into groups of no less than five members each. Six to eight groups form a center headed by a democratically elected chief. Sixty centers constitute one branch; five to six branches make one area. The NGO currently serves six areas and there are three areas in the bank’s structure.

In a democratic election process, center chiefs elect MBA coordinators, whose tasks include verification of claim documentation and provision of member service to insured members, as well as information dissemination among members. MBA coordinators are elected for one year terms during December and January local meetings of members.

During the annual general meeting, which is held in March, MBA coordinators elect seven trustees to the Board. Four of them will serve for a two-year term and three serve a one year term. The Trustees in turn elect a President of the MBA.

Trustees are elected from among the most respected members of their community, and the election process is often hotly contested. Once their term is over, trustees must wait for at least a year before they can stand for election again, and then they must undergo the entire election procedure from group level.

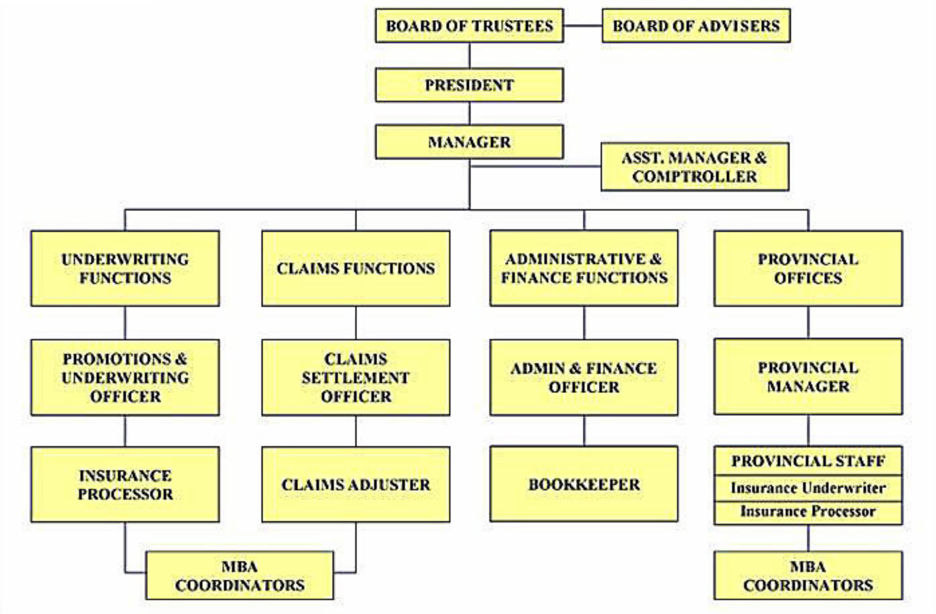
The **Board of Advisers** is a three-member body whose main task is to assure policy and operating coordination between CARD MBA and the other institutions of the CARD MRI system. This Board consists of the Managing Director of CARD MRI, and one member each from CARD Bank and CARD Inc., with alternates from each institution. This board has informal yet important day-to-day contact with CARD MBA management, and frequent interaction with the MBA President. The Board of Advisors also provides significant formal oversight of the MBA and the Trustees in terms of management, policies, regulatory compliance, and governance. Such guidance has been an important ingredient in the success of CARD MBA.

Organisational Structure

The MBA’s organisational structure is depicted in Figure 3. The **General Manager** is responsible for all day-to-day operations of the MBA including premium collection, claim payment, administration, and operation of provincial offices. His job also includes liaising with membership structures and supervising MBA coordinators.

Underwriting functions are limited to membership issues, as the only requirement for insurance is to be a member of the bank or NGO. There is no health questionnaire and no separate application documentation. Acceptance into CARD membership yields automatic insurance acceptance for this mandatory product.

Figure 3 CARD MBA Organizational Structure



The **claims** function at the head office is limited to reviewing and accounting for claims paid, as the claim payment function has been decentralised and is handled by MBA coordinators at the branch level. Claims documentation is delivered to the head office after payment for review and recordkeeping.

Administration and finance are responsible for ensuring smooth internal functioning of the MBA structure as well as internal recordkeeping, bookkeeping, and preparation of external reporting for supervisory authorities.

CARD MBA maintains **four provincial offices**, and plans to open its fifth in July 2004. Each office employs three people: a manager, a bookkeeper and a membership representative. The manager supervises the daily operations of the office; the bookkeeper is responsible for recordkeeping and reporting to head office; and the membership representative is responsible for supervising the coordinators, verifying claims and maintaining contacts with the membership structures. Provincial offices were established to bring the head office functions closer to regional membership structures; it appears that this objective has been successfully achieved. Provincial offices have also become rallying points for MBA coordinators.

The **coordinators** are the MBA's representatives in the field and may be characterised as member service representatives. Their activities include: factual verification of claim documentation, claim payment, educating current and potential clients, and addressing questions from CARD's staff or clients. They also work with branch managers to ensure appropriate and timely collection and transfer of premiums as well as document compliance. Finally, they are charged with MBA information dissemination among members. For these activities, coordinators are paid PhP 600 (US$11) per month plus their direct expenses.

As reported by the MBA's immediate past President, Ms. Pilar Garcia, who worked several years as a coordinator: a coordinator's tasks are important to members and are delegated to trusted members in good standing with CARD, who are respected in their group and community. Coordinators must commit to working at least one day per week on MBA business, although the responsibilities can often take up to two days a week. The work has irregular hours as claim verification must be done immediately to ensure that settlements are processed in three days. People are selected to be a coordinator for one year only to reduce the risk of fraud and create a more knowledgeable membership.

Expertise and Training

Management skills of the MBA appear to be in line with the requirements of the organisation. The management team has a good mix of insurance skills and experience, as well as familiarity with the operations of the bank and NGO—an important requirement due to the close working relationship between the organisations.

Mr. Alex Dimaculangan, the General Manager of the MBA, is an eighteen-year veteran of the insurance industry, where he worked for a state-owned agribusiness insurance company. He appears highly knowledgeable and brings significant professional insurance experience into what was a microfinance-oriented and influenced organisation.

MBA head office staff are generally hired from the structures of the CARD institutions and appear to come from positions strongly oriented towards the non-technical customer service activities of the bank and NGO. Thus, their insurance experience and qualifications come from on-the-job training and coaching by Mr. Dimaculmangan, supplemented by externally provided training courses at, among other institutions, the Insurance Institute of Asia and Pacific. Starting this autumn, two members of senior management will attend company-sponsored Masters in Business Administration programmes.

Actuarial expertise is provided through CARD MBA's relationship with the Canadian Cooperative Association (CCA). The CCA provides an actuarial consultant who works closely with MBA board, management, and staff. With them, he reviews and addresses the insurance risk of the MBA, develops management and control systems, and is creating technical assistance capacity and structures so the CARD MBA can help other mutual benefit associations in Southeast Asia.

The MBA's Board of Trustees has very little governance expertise, but they have a strong sense of commitment to both CARD and its members. The board receives some training on governance matters, and since board members have all been coordinators, they understand the products and the market. They also learn on the job with guidance from the advisory committee, which is critical to the successful oversight of the institution.

Coordinators are elected instead of hired for particular skills, but they do have the confidence of the members. Newly elected MBA coordinators undergo a day's training at the March annual membership convention; in the period between their election (in December or January) and the training, they perform their duties in cooperation and under supervision of the outgoing MBA coordinator. The bulk of the training occurs on the job training.

Since the current business processes and products in the MBA are simplified, the level of expertise and training appears sufficient to ensure appropriate performance.

2.3 Resources

Financial resources for the operation of CARD MBA are derived from earnings and cash flow. The initial capital came from the total value of contributions and accrued interest from the Members' Mutual Fund. All premiums that had been paid to the MMF since its inception, net of claims paid, were transferred to CARD MBA upon its commencement. Thus, CARD MBA is wholly owned by its members.

It is important to recognise that although CARD MBA has not received donor funds directly, they have substantially benefited from the major grant funding for other CARD agencies. Without these inputs there would be no CARD MBA.

2.4 External Relationships

MBA maintains a very close relationship with other institutions of the MRI system, particularly the NGO and bank. These institutions provide the entire sales delivery, premium collection, and claim payment system for MBA in exchange for 2 percent of the premiums collected. Although the MBA is fully dependent on them for these vital functions, this arrangement has proven extremely efficient and inexpensive. The CARD family offers the MBA an excellent delivery mechanism and ensures a close relationship with the market in return for a relatively minor cost.

CARD MBA also maintains a significant relationship with the Canadian Cooperative Association (CCA). The CCA provides technical assistance in the form of a part-time, on-site Actuarial Technical Advisor who is developing information technology (IT) systems to facilitate the management of microinsurance data.

2.5 Risk Management Products

MBA offers two insurance products, life insurance and loan redemption, and a long-term savings scheme (the provident fund), as explained in detail in Section 4. These products provide assistance in old age and death with amounts that appear to be helpful to the beneficiaries, as well as protecting the institutions from death risk on their credit portfolios.

From informal research done by CARD MRI, it is clear that members would like a wider array of risk management tools. For example, as a response to demand from members for health cover, CARD MBA is in discussion with PhilHealth to identify ways in which CARD's members could benefit from this national health insurance programme. If these negotiations are successful, CARD MBA would offer the PhilHealth insurance package through a partner-agent model, rather than taking on the risks and complexities itself.

The Bank and the NGO offer microcredit, and the Bank also offers savings accounts, which can assist with death emergencies and old age, but they have shown to be of limited value in responding to these needs.

2.6 Profit Allocation and Distribution

All profit generated by MBA is committed to capital. No profits have been returned to members, or paid out to any other institutions as stipulated in the Corporation Code of the Philippines which states: "in the course of the operations of a non-stock corporation, as an incident thereto, it may earn income but it cannot distribute such income to its members, trustees or officers, except upon dissolution." CARD MBA returns some income in the form of benefits to members through scholarship programmes for deserving children of clients, medical missions, alternative income generating training, and other social projects (see Section 4.3).

2.7 Investment of Reserves

The institution has no formalised policy on investment of reserves. As a mutual benefit association, it is exempt from investment guidelines imposed on formal insurance companies; however management intends to comply with generally accepted insurance investment guidelines despite not being formally bound to do so. This task is to be aided by the recently formed Investment Committee, consisting of representatives of all MRI member institutions. The goal of the Committee will be to develop investment bylaws, which will be binding across the entire MRI system. Should such bylaws be developed in accordance with generally accepted insurance investment guidelines, their implementation will force a major change in the investment policy of CARD MBA.

CARD MBA intends to comply with generally accepted insurance investment guidelines despite not being formally bound to do so.

As of December 2003, the investment portfolio was extremely weighted towards deposits in a related institution, the CARD Bank. While market information indicates that bank deposits constituted 6.7 percent of total investments of insurers, MBA deposits in CARD Bank constituted PhP 82m (US$1.5m), or 64.6 percent of its total cash, investments and other assets. MBA also owns 50,000 shares of CARD Bank, at total acquisition value of PhP 10m (US$182,000). MBA's total exposure to CARD Bank equals PhP 92m (US$1.7m), or 72.4 percent.

This arrangement has some advantages. CARD Bank is paying MBA 10 percent interest on deposits of more than PhP 10 million, which is higher than the short-term benchmark in the Philippines of 7.9 percent. Furthermore, there are recognisable benefits of MBA aiding the expansion of the institution that actively fosters its growth and almost completely ensures the success of its operations.

The risks of such an arrangement, however, are quite considerable for CARD MBA. By maintaining such high concentration of investments with a related party, MBA is exposed to concentration risk and liquidity risk, as well as moral hazard.

Concentration risk and liquidity risk come from the danger of CARD Bank not being able to meet its deposit obligations towards MBA. The Bank's potential initial inability to return deposits on time could result in the extension of deposit periods that, while not destroying the value of investment, would strain the MBA's liquidity. The Bank's potential inability to definitely return deposits would effectively wipe off between 65 and 72 percent of its investment portfolio, denying MBA the ability to meet its obligations in full and on time. For an insurance organisation, such a situation effectively would mean a forced termination of operations.

The moral hazard problem stems from the fact that the same management team has effective strategic control over both institutions, CARD Bank and MBA. Should the Bank experience difficulty in meeting its deposit obligations towards MBA, the management team might be forced to choose between the continued existence of one of the institutions, thus effectively denying them the ability to exercise good governance.

It must be noted that, while 64.6 percent of MBA's total investment portfolio is deposited in CARD Bank, in mid-2003 the share was as high as 90 percent. These deposits have been part of systemic policy to provide funds to the bank for loan portfolio expansion. At present, these funds mostly provide surplus liquidity to the Bank. They also may be held in the Bank because it has a treasury function that may be better able to invest these funds. Reduction of these concentration levels will be necessary as the MBA adjusts to generally binding insurance investment guidelines.

CARD MBA's investment activities are especially important given the 8 percent annual return that CARD MBA has been marketing for its provident fund. Though the rate is indicative, it is the actual rate that has been in effect since the MBA started. CARD MBA management has not been concerned with the potential interest rate risk, since for the last three years they have achieved average returns of over 10 percent, and currently they enjoy returns of between 10.0 percent and 11.75 percent. Management and the Board note that the spread of two to four percent is sufficient. If the earnings fall below 8 percent, the Board will have to authorise an interest rate reduction on the provident fund. The rate of 8 percent is derived from the prevailing interest rates on time deposits.

2.8 Reinsurance

The institution has no reinsurance relationship at the present time. Its capital strength allows CARD MBA to assume all risks. To assure long-term safety and profitability of the portfolio, the management entered into a stop-loss reinsurance agreement with a leading Philippine reinsurance organisation. This agreement, however, was terminated last year due to problems with claim repayment by the reinsurer under the then agreement. In the words of the general manager, "the reinsurer did not live up to its promise" by refusing to pay claims that, according to MBA management are clearly payable based on the contract. MBA is presently considering legal steps against the reinsurer to collect the reinsurance payments that it believes are due under the now defunct arrangement.

MBA has since sought reinsurance coverage for its life and loan redemption business with other providers but has not reached an agreement due to the high level of proposed reinsurance premiums. MBA continues to actively seek coverage for these two products. However, as management claims, MBA is not under time pressure to obtain coverage and will continue to seek reinsurance on best possible terms.

3. The Members

The client-members of the mutual benefit association are the members of CARD NGO and CARD Bank, which essentially is a captive market for the insurer. CARD targets landless women who have monthly per capita income of PhP 1,500 (US$27) and below. To qualify for its lending programme, clients must have less than PhP 150,000 (US$2,700) of marketable household assets, which is consistent with the capital limit of the microfinance market as specified in the Poverty Alleviation Act.[9] CARD members are active in various business activities including small-scale animal husbandry, small-scale retail, simple restaurants, tailoring and fishing.

Table 11: Member Information

Issues	Observations
Intended target groups	Members of CARD Bank and CARD Inc.
Actual clients and reasons if deviation from intended market	Actual market is the same, but includes minimal numbers of former CARD members.[10]
Exclusions of specific groups	Men are excluded from CARD membership (although legal spouses are covered by the life insurance)
General economic situation of clients	Members are from low-income groups.
Key economic activities of clients	Mostly small scale retail (a huge array of retail items), some wholesale, limited manufacturing (tailoring), some services (restaurants)
% of clients working in the informal economy	100% - A prerequisite for membership is that neither members nor their husbands can be employed in the formal sector.
Social characteristics of clients	Low income, informal sector, women are members of CARD
Geographic characteristics	Spread throughout the CARD market area that is accessible from much of the country.
Nature of membership	Membership is composed of CARD Bank and NGO members, plus about one thousand former members that continue paying the premiums.
Methods of recruitment of clients	The insurance products are mandatory so CARD MBA does no recruitment. The Bank and NGO do the recruitment

The selection criteria for the CARD Bank and NGO include the following:

- After training in five modules, members must pass a test of basic CARD information
- Persons cannot join if the potential member or her husband has regular formal sector employment
- The technical officer and the branch manager must believe that the funds advanced will be used in the agreed manner
- Must be a woman

[9] http://www.cardbankph.com/mba_write_up.htm
[10] This was promoted in response to demand from exiting members who wanted to continue their cover. However, the policy of accepting exited CARD members for continued insurance cover has been halted because of operational problems such as collection, and also it was then suspected as one of the reasons of resignation of members from CARD Inc. and Bank to become members of CARD MBA only.

- Must be aged 18 to 60 (when they start membership)
- Must be a permanent resident of their village having stayed there for at least three years
- Must be willing to attend all trainings and follow the CARD rules
- Per capita household[11] income must be less than PhP 1,500 (US$27) per month
- Must have less than PhP 150,000 (US$2,700) in assets

3.1 Conditions

Geographically, MBA operates in Region III, IV and V of the Philippines, including: the provinces of Bulacan; Laguna, Batangas, Quezon, Mindoro Oriental, Mindoro Occidental, Marinduque, Camarines Sur and Masbate.

3.2 Risks and Vulnerabilities

Based on formal and informal research methods, CARD has identified three major risks facing its members: expenses relating to death, old age, and ill health. There is no formal assessment of the hierarchy of these demands and so CARD MBA has worked to address the two that it can relatively easily provide for its members.

CARD's target market has traditionally had mechanisms to partially address these risks. Risk sharing and other forms of risk management through solidarity mechanisms have been part of Philippine community life for centuries. One scheme that remains prevalent is the practice of *damayan,* where relatives and friends in the community voluntarily contribute cash to the dependents of an individual who passed away. The *damayan* has become the basis of risk-pooling schemes for life insurance and is common among cooperatives and associations.

Recognising the success of the d*amayan* structure, while at the same time noting the deficiencies of this model, has led to institutionalisation and labelling as "life insurance" by MFIs. MFIs have included some policies to make the custom of *damayan* binding and compulsory.

People have used this method for generations, yet the result is usually insufficient to fully cover the needs of members, and it does not address other risks like old age, unemployment, or health. To cope with these risks, they have had to identify additional sources of funding such as loans, savings depletion, and the sale of productive and non-productive assets.

3.3 Relationship between Risks and Services

There exists a clear link between member risks covered by CARD MBA and the core operations of CARD Bank and CARD NGO. The Loan Redemption Fund ensures that the loan is repaid to the lender in case of the borrower's death. Should such coverage be absent, death of a borrower would require payment by the group, which would lead to dissention, instability, and occasionally dissolution of groups, and adversely affect CARD's loan portfolio.

[11] A household is defined as those people living in one house and eating from the same table.

While the Loan Redemption Fund is the clearest example of a direct link between client risks and services provided by CARD, the other two products provided by CARD MBA—life insurance and the provident fund—help improve members' perception of CARD as the organisation offers more services to meet the basic needs of its members.

3.4 Familiarity with Insurance

Despite their experience with *damayan*-type schemes, insured members have little knowledge of formal insurance concepts and products. However, they have been able to identify major need areas with regard to insurable risks, which has significantly influenced CARD's product development and design.

4. The Products

The three products offered by CARD MBA are detailed below: (1) life insurance; (2) a provident fund; and (3) a loan redemption fund.

Life Insurance

Life insurance is a whole life product offered on a compulsory basis, as part of the CARD membership package. It was initially offered beginning in 1994, in a joint package with the loan redemption fund. Under the terms of the arrangement, for a weekly premium of PhP 2 (US$0.04), the borrowing member's loan balance towards CARD would be covered and a death benefit between PhP 2,500 and PhP 5,000 (US$55 and US$91) would be paid.

In 1995, the product was expanded to include the member's legal spouse and dependents, with premium increase—again, for both products jointly—to PhP 2.50 (US$0.05). In 2000, when the MMF was taken over by the MBA, premiums were adjusted to PhP 5.00 (US$0.09) per week for the family life insurance policy, including total and permanent disability (TPD); the loan redemption portion was separated from this package and charged separately. The specific life insurance benefit depends on how long the member has been with CARD, creating a loyalty incentive.

Table 12: Product Details - Life Insurance

	Product Features and Policies
Microinsurance Type	Life insurance
Group or individual product	This product has elements of both group and individual policies. Transactions between members and the MBA are all managed through the bank or NGO. In this sense, it acts as a group policy. However, in terms of the legal structure, an MBA must provide individual policies to each insured and track them as individuals. In this sense, these are individual insurance policies.
Term	Whole life
Eligibility requirements	CARD Inc. or CARD Bank member; member of other authorised MFI which has a valid contract with MBA
Renewal requirements	Renewals match loan renewals. Reinstatement must be done within three years from date of resignation.
Rejection rate	Depends on CARD Inc. or CARD Bank
Voluntary or compulsory	Compulsory
Product coverage (benefits)	Single payment at death or total and permanent disability of member, legal spouse, legitimate children (21 and below, or if above 21 must be incapacitated or disabled; maximum of three children covered), legitimate parents over sixty years old if the member is single.
Key exclusions	Members recognised after May 1, 2003 will have a one-year contestability period
Pricing – premiums	For CARD members: PhP 5 per week (US$0.09) sold jointly with the Provident Fund at an additional at PhP 5 per week. For other MFI members: PhP 20 per month (US$0.36) and sold jointly with the Provident Fund for an additional PhP 20 per week.

As mandated by the MBA law, a premium refund is available to members who leave MBA provided they have been with CARD for at least three years. If this criterion is met, the amount refunded will be 50% of premium paid during membership, less any claims paid.

Covering parents over the age of sixty years old adds substantial risk to the insurance pool. CARD's management explains this inclusion as a common practice: "Those parents below sixty years have their own source of living so they can not be considered as legal dependents of a single member. Even the social security system, and the civil servant security and insurance system follow the same policy."

Provident Fund

The provident fund is a long-term savings scheme, not an insurance policy. Its turbulent history was described in Section 2.1. The exact amount of payment depends on the length of membership during which the premiums were paid, as well as interest obtained on the amount paid.

Table 13: Product Details - Provident Fund

	Product Features and Policies
Microinsurance Type	Provident fund (long-term savings, not insurance)
Group or individual product	Individual
Term	Upon retirement at age sixty-five
Eligibility requirements	Must be a CARD Inc. or CARD Bank member; member of other authorised MFI which has a valid contract with MBA
Renewal requirements	N/a
Rejection rate	N/a
Voluntary or compulsory	Compulsory
Product coverage (benefits)	A guaranteed payment of a single sum at age 65; the value is determined based on the value of premiums received plus accumulated interest (currently at 8% per annum)
Key exclusions	None
Pricing – premiums	For CARD members: PhP 5 per week (US$0.09) For other MFI members: PhP 20 per month (US$0.36)

Loan Redemption Fund

Loan redemption insurance is a term life product offered to CARD members on a compulsory basis as part of the CARD membership package. It has been offered since 1994.

Upon transfer of the portfolio from MMF to MBA, the product was subjected to actuarial review, and the pricing and benefit schedule were changed. The restructured product—now called the "All Loan Insurance Package" (ALIP)—includes the following benefits upon death of a member: balance of deceased member's loan is repaid to CARD and an amount equal to the portion of the loan already paid off is paid as a death benefit to a beneficiary. Premium for this product is 1.5% of the principal amount of the loan, paid upfront at loan disbursement (deducted from disbursement or paid in cash by member).

Table 14: Product Details - Loan Redemption Fund

	Product Features and Policies
Microinsurance Type	Loan redemption fund
Group or individual product	Group
Term	The same term as the linked loan
Eligibility requirements	CARD Inc. or CARD Bank member; member of other authorised MFI which has a valid contract with MBA
Renewal requirements	Automatic renewal with each loan.
Rejection rate	Depends on CARD Inc. or CARD Bank
Voluntary or compulsory	Compulsory
Product coverage (benefits)	In case of member death or total and permanent disability, the balance of that member's loan will be repaid; additional benefit equal to the amount of the loan already repaid is payable to the indicated beneficiary.
Key exclusions	None
Pricing – premiums	1.5% of loan value per annum, deducted or paid at loan payment to member

4.1 Partners

MBA's partners in the product development and delivery process are CARD Bank and CARD, Inc.—the main institutions of the CARD MRI system. The operations of these organisations are coordinated to ensure policy synergies, efficiency of operations, and minimisation of costs. The CARD MRI also includes a training centre, although the centre's contributions to the microinsurance operations generally consist of providing space for the MBA to hold its own trainings.

4.2 Distribution Channels

The bank and NGO are the distribution channels for 95 percent of all premiums generated for CARD MBA. All products are delivered to members automatically as part of their CARD membership package on a compulsory basis, which makes transactions extremely efficient and cost effective. Table 15 summarises the insurance delivery process.

Table 15: CARD MBA Underwriting Processes

	Life Insurance / Provident Fund
1	Member applies for membership package, including compulsory life insurance and provident fund.
2	Membership information is forwarded through bank and NGO channels to respective CARD head office.
3	Member is entered into a membership database: computerised at the bank, manual at the NGO
4	Membership information is delivered to MBA, in file format from CARD Bank and in paper format from CARD, Inc.
5	Members are registered in MBA database.
6	Based on database records, certificates of membership are printed and sent to new members (see Appendix 1). This concludes the underwriting process.

For the ALIP package, the process is identical except that printed certificates are not produced. Proof of insurance is the payment slip for the premium.

As a strategic move, CARD MBA has diversified its market by attracting three institutional accounts. Although a small percentage of premiums is currently generated from other organisations, this line of business is growing for CARD MBA and will likely become an important income stream in the future, as long as it does not encounter legal troubles related to this activity. With these other MFIs—which account for less than five thousand members—distribution is also based on compulsory membership and runs through membership structures of those MFIs in an identical manner to that of CARD.

Another strategic adjustment was the move to a provincial office structure. This decentralisation followed the recognition that coordinators needed better supervision, and that processing could be more efficient if there were intermediary units. These units supervise the coordinators, collect and process regional data, provide local oversight on the implementation of controls, and act as an information resource for clients and coordinators. CARD MBA has found that this structure improves its efficiency and customer service, and has improved the information flow between headquarters and coordinators.

4.3 Benefits

The insurance activities of MBA clearly respond to the most important identified insurance needs of its clients:

- Protection for the death of a breadwinner
- Protection against the need to repay the loan in case of death of the borrower, who is often a breadwinner as well
- Retirement savings

The insurance also meets the needs of the CARD institutions as it helps maintain portfolio quality through protection against death-related loan default and it supports the good reputation of CARD as an institution that offers its members additional protection.

When a member of CARD dies, her beneficiaries typically receive a benefit amount that includes three bits of money, one from each of the products discussed here. The beneficiary will receive: 1) a life insurance benefit; 2) a loan redemption fund benefit equal to the principle payments that the member had already paid, and 3) savings plus interest that the member had accumulated in her provident fund.

Life Insurance: The benefits for the life insurance scheme are summarised in Table 16. The benefits increase as the member stays with CARD; accidental deaths pay higher benefits than natural deaths for members. Members are immediately eligible for accident benefits; illness benefits require a 6-month waiting period. The lower benefit for spouses and dependents is partly attributable to the adverse selection risk for non-member coverage and the high death rate for spouses (see Section 4.6).

The category legal spouse and dependents includes up to four persons from the following categories: a) husbands; b) children and legal dependents under the age of 21; c) children over 21 if they are disabled; and d) for members who are not married, they can include their parents if they are over 60 years of age.

The life insurance policy also covers total and permanent disability in the case of accident or illness related disability. To qualify for TPD benefits for accidents, one must lose sight in both eyes, or lose both hands or feet, or lose one hand and one foot. Disabled persons receive a monthly stipend for eighteen months that is equivalent to 1/18th of the life benefit they would have received. If a member makes a disability claim, she is no longer eligible for a life insurance benefit.

Table 16: Benefit Amounts

Duration of membership	Cause of Death	Member (US$)	Legal spouse and dependent (US$)
Under 1 year	Pre-existing condition or event during contestability period	18	-
Under 1 year	Natural	55	55
Under 1 year	Accident	182	55
1 - 2 years	Natural	55	55
1 - 2 years	Accident	236	55
2 - 3 years	Natural	302	110
2 - 3 years	Accident	575	110
Over 3 years	Natural	302	110
Over 3 years	Accident	665	110

Provident Fund: The provident fund guarantees a single payment at the age of 65; the value of the payment is based on the value of deposits received plus accumulated interest. Today, members are required to pay PhP 5.00 per week into the provident fund.

The illustrative returns shown in Table 17 are based on CARD's current interest on the provident fund of 8 percent per year. For example, for a member enrolled at the age of 30, she would make a total contribution from age 30 to 64 of PhP 8,400; her benefit at age 65 is PhP 46,184, assuming that annual contributions of PhP 240 were made on time.[12] If the member dies before she retires, then her beneficiaries would receive the savings plus interest. With inflation in the Philippines currently at 6 percent, the provident fund is generating a positive return to CARD members, but provident fund interest is not indexed or linked to the inflation rate.

[12] This scheme assumes 48 payments per year, not 52. This adjustment simplifies the calculations so that each month the insurer expects PhP 40 per member from the bank and NGO, PhP 20 for the provident fund and PhP 20 for the life insurance.

Table 17: Sample Computation of Benefits at Age 65[13]

Age	Contribution (PhP)	Benefit at Age 65 (PhP)	Age	Contribution (PhP)	Benefit at Age 65 (PhP)	Age	Contribution (PhP)	Benefit at Age 65 (PhP)
18	11,280	125,076	34	7,440	32,747	50	3,600	6,967
19	11,040	115,259	35	7,200	30,006	51	3,360	6,202
20	10,800	106,194	36	6,960	27,475	52	3,120	5,495
21	10,560	97,824	37	6,720	25,138	53	2,880	4,842
22	10,320	90,096	38	6,480	22,980	54	2,640	4,240
23	10,080	82,959	39	6,240	20,987	55	2,400	3,683
24	9,840	76,370	40	6,000	19,147	56	2,160	3,170
25	9,600	70,286	41	5,760	17,448	57	1,920	2,695
26	9,360	64,668	42	5,520	15,880	58	1,680	2,257
27	9,120	59,480	43	5,280	14,431	59	1,440	1,853
28	8,880	54,690	44	5,040	13,094	60	1,200	1,479
29	8,640	50,287	45	4,800	11,859	61	960	1,135
30	8,400	46,184	46	4,560	10,719	62	720	816
31	8,160	42,413	47	4,320	9,666	63	480	522
32	7,920	38,931	48	4,080	8,694	64	240	251
33	7,680	35,716	49	3,840	7,796			

ALIP: The third product is the All Loans Insurance Package. In exchange for a premium of 1.5 percent of the disbursed loan amount, in the event of the member's death, ALIP repays the outstanding balance of the loan and provides a payment to the deceased's beneficiary equal to the principle payments already made on the loan. In effect, the sum assured is equal to the disbursed loan amount, which is divided between the financial institution and the beneficiary depending on how much of the loan is outstanding. CARD's average disbursed loan is approximately $110, although the actuarial calculation assumes an average loan of PhP 10,000 ($182).

Changes to Benefits

Over the years, CARD's products have experienced a number of benefit changes that reflect valuable lessons for microinsurance providers.

- *From pension to provident fund*: The switch from a pension scheme to a provident fund is perhaps the most significant lesson. As an insurance annuity, which makes benefit payments over a period of time, a pension plan is one of the most difficult products to price properly, even if CARD had used an actuary. By turning it into a long-term savings scheme without a risk-pooling element, CARD dramatically simplified the product while still responding to an important demand from its members.
- *Gradual additions*: In principle, CARD's approach to gradually adding additional benefits over time is quite sound. Once CARD had sufficient experience with coverage for its members, the next step was to extend coverage to spouses and legal dependents. This change increased the members' acceptance of insurance since they could then benefit directly (previously they had to die in order to benefit). Later CARD also added disability coverage as well. Had proper actuarial analysis been completed at each step in

[13] Assumes investment income at 8.0 percent per annum. MBA is currently receiving 10 percent interest from CARD Bank on deposits over PhP 10 million.

the process, this incremental approach to meeting customers' needs would be a recommended practice.

- *Removing the flat fee for loan insurance*: In its original incarnation, when the loan insurance and the life insurance were combined, the premium was a flat amount (initially PhP 2 per week). While this arrangement greatly simplified recordkeeping, it created a significant problem. Although the life insurance benefit was fixed, the loan coverage portion was variable depending on the loan size. So essentially persons with smaller loans were subsidising the insurance premiums of those with larger loans.
- *Switching to all loans insurance*. After moving away from the flat fee for loan insurance, the premium was 2.5% of the loan amount for loans of PhP 10,000 (US$182) and above. No premium was collected for loans under PhP 10,000, but they were covered by the insurance, so borrowers of large loans were subsidising the coverage for the smaller loans. In 2000, management noticed that members were reluctant to borrow PhP 10,000 or more, in part because they did not want to pay the insurance fee. Members noted that it was too much to pay after having paid nothing for the same service. As a response to this fee based barrier, in November 2001 the loan insurance was redesigned. The premium changed to 1.5% of the principal amount of all loans, regardless of the amount, and it covered the disbursed loan amount not just the outstanding balance. This alteration was made with few problems from members since the price went down for some, and all members saw the improved coverage.
- *Loyalty benefits*: The adjustments in 2001 were also intended to increase the benefits to cover the increasing costs of funerals. CARD MBA took this opportunity to reward members who had paid premiums for longer durations through a structure of increasing benefits (as shown in Table 16). This arrangement benefited CARD through: a) reduced adverse selection risk; b) lower claims costs in the early years before members had paid much in premiums; and c) enhanced client loyalty.
- *Stated return on Provident Fund*: In its initial offering of the provident fund, CARD MBA promised an 8 percent annual return on all funds. In 2002, management and the Board recognised the interest rate risk that they faced and changed their phrasing, noting that the rate is merely *indicative*. They implemented this change by altering their applications to state: "*Kung ang kinita ng pondo ay 8.00%*" ("If the funds earned 8 percent").

Additional Benefits of MBA Membership

Besides its core insurance and saving products, over the years MBA also added the following additional services for its members:

- **Marketing assistance**. MBA head office staff help members market their products to a wider population. The plan is that CARD members who manufacture goods for a living may use MBA's assistance in marketing these products. Currently this means allocating display space in the MBA head office. While a noble idea, this has yet to prove its worth, as MBA staff members have neither ways nor means to provide effective marketing assistance.

- **Mass weddings**. CARD MBA requires that for coverage of other family members there must be legal documentation to prove the relationship. Many MBA members have not yet formalised their relationship with their spouse, often because of the costs involved. Thus, as a member benefit, MBA occasionally organises mass weddings for its members. This event helps members comply with MBA requirements, puts women in a better legal position, and saves them money.

- **Training sessions**. MBA organises training sessions for its members to develop productive skills. These sessions, in collaboration with the Department of Trade & Industry (DTI) and Technical Education and Skills Development Authority (TESDA), focus on livelihood skills.

- **Out-of-School Youth Scholarship Program** (Iskolar ng CARD MBA – ICM). In coordination with TESDA, MBA strives to improve its members' quality of life by providing their legal dependents with employment and self-employment skills training.

These additional benefits appear to be provided by the MBA because the CARD MRI wanted to offer the services and found the MBA the easiest place to locate them. Except for the marriage ceremonies, these additional benefits do not have a clear link to insurance.

Special Needs of Women

When CARD began, the initial objective was to help landless women in the Philippines to gain the ability to generate income. The focus is, and will continue to be, on low-income women. CARD's membership is 99.6% female. Indeed the organisation's mission statement is very clear about its market:

> CARD-MBA is a mutual benefit association formed to promote the welfare of marginalised women; to extend financial assistance to its members in the form of death benefits, medical subsidy, pension and loan redemption package; and to actively involve the members in the direct management of the association including formulation and implementation of policies and procedures geared towards sustainability and improved services.[14]

CARD's initial insurance scheme simply covered the members in the event of death. The organisation realised through discussions with members and staff that the insurance cover provided little benefit to the women themselves, as they had to die to benefit. The realisation was an important input in the decision making process which resulted in the additional cover for the spouse and children, which were seen as valuable benefits to the members.

4.4 Premium Calculation

A consulting actuary calculates the premium. Each product is priced based on an actuarial memorandum, listing assumed benefits, mortality rates, reserving methods and other loading

[14] http://www.cardbankph.com/

and operating assumptions. The relevant loadings are summarised in Table 18; details regarding the assumptions for risk premium were not available. The actual operating expenses charged in 2003 were 14.51% for life insurance and 12.65% for ALIP.

Table 18: Product Loadings in Actuarial Memorandum

Product	Operating Cost Loading	Commission Loading	Reinsurance Loading
Life Insurance	20%	A 2% handling fee paid to CARD, is included in overall administrative expense loading.	Not included in memorandum.
Provident Fund	2%		
ALIP	20%		

The actuarial projections developed in late 1990s refer to mortality tables for 1971. While there is nothing in the underwriting results to suggest that use of old data had a negative impact on the operations of MBA, a review of rates using recent data should be performed.

Although reinsurance was not included in the actuarial memorandum, MBA previously had stop-loss reinsurance for the life insurance and ALIP products, and expects to find reinsurance for them in the future. The amounts paid to the reinsurers should have a negligible impact on the cost to the members.

The provident fund does not need reinsurance since it is a long-term deposit facility with no risk-pooling effect. The extremely low operating costs assumed for the provident fund are because it is priced as a savings scheme rather than as an insurance product.

4.5 Premium Collection

Members pay their premiums weekly, at the same time as they make loan repayments or savings deposits to CARD Bank or Card, Inc. For members of the bank or NGO, this is the only payment option. For members who leave CARD but wish to continue receiving insurance protection, the premium may be paid directly to the MBA's provincial office. It could not be determined how many members remain with MBA and pay their premiums directly to the provincial offices; the number appears to be very small.

Since premiums are paid together with loan repayments and/or savings, the collection process is quite simple, requiring minimal back office processing to ensure appropriate bookkeeping and reporting. Although paid weekly, the premium is transferred to MBA monthly, net of the 2 percent handling fee and any claims paid through CARD branches. A cumulative report is provided by each branch and sent to MBA head office along with the net premium transfer. Paying through the branches directly to MBA is in keeping with the decentralised management of the CARD MRI.

Members have a thirty-one day grace period in case of premium lapses. After that time with no payment, their policy is cancelled, and all premiums paid are lost to them. In the first half of 2004, about one thousand policies, or less than two percent on an annual basis, were cancelled. This level of lapses is rather high given that it occurs within a loan cycle. It is likely that this is a loan portfolio problem rather than strictly a microinsurance issue since the premium in quite small relative to the loan repayment.

No major relationship problems have been identified since the start of the MBA, except for the occasional use of MBA coordinators as loan collectors for CARD under the pretext of reminding members to pay overdue premium (see Box 2). Since CARD and MBA closely coordinate their policies, the respective management teams will have to decide whether they wish to officially condone such practices, in which case changes to the role of MBA coordinators will be significant.

Box 2. Coordinators or Loan Collection Assistants?

During a field visit to the provincial office of MBA in Quezon, MBA coordinators stated that they have been asked to assist in loan collection duties from delinquent borrowers, with the justification that default in loan payment is equivalent to default in premium payment, and that such collection activities were in the best interest of both institutions.

This task is clearly inconsistent with their job description and may lead to confusion regarding their role and purpose. If used extensively, this may undermine the effectiveness of MBA coordinators. The payment for their duties is relatively small (PhP 600, or US$11, per month plus direct expenses) and incommensurate with the amount of time they actually devote to these tasks. If burdened with additional duties, they may find that they are being stretched too far and fail in some of their original responsibilities, or demand higher payment for their extended services.

4.6 Claims Management

One aspect that distinguishes microinsurance from insurance is the willingness to be flexible in the documentation required to submit a claim. CARD MBA has very clear documentation requirements, as described in Table 19, but at the end of the day the official paperwork is less important than the approval of the Board of Awards, the coordinator and branch manager, at least for claims under PhP 40,000 ($700). For these smaller claims, MBA really cares about three things: that the person is really deceased, that they were insured, and that the identity is correct. As long as management is confident that these are addressed, it is willing to be flexible on the legal documentation.

For large claims, however, a more careful review of the documentation is required, along with additional documentation (see Appendix 2). This process is applicable primarily to the loan insurance since the benefits for life insurance do not exceed this threshold. The practice of distinguishing between large and small claims, and being more flexible and efficient with smaller claims, is perhaps a good practice for microinsurance.

Regardless of the size, if the claim is for someone on a policy in its first year, the coordinator is supposed to assess if perhaps that person may have had a pre-existing condition. If there is some suspicion in that regard, then a local physician is asked to review the case.

The vast majority of the claims are for premium refunds. When members leave CARD, they can withdraw all of their provident fund deposits plus interest. Persons who have been with the organisation for at least three years are also eligible for a refund of 50 percent of their life insurance premiums.

Table 19: The Claims Settlement Process

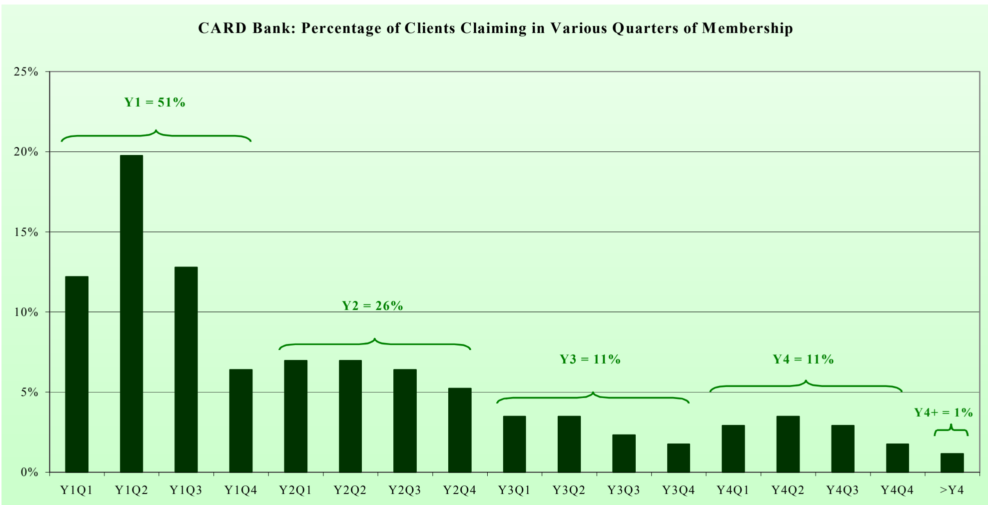
	The Claims Settlement Process
1	Member or beneficiary submits Notice of Death/Disability/Provident fund redemption to her centre/branch through centre chief, technical officer, branch manager, or MBA coordinator.
2	Member receives claim form and is advised of required documentation, which includes: • marriage contract (for life insurance for spouse) • birth certificate (for life insurance for dependent) • death certificate (for life and ALIP insurance, for all persons) • doctor's statement of total and permanent disability (for the disability cover) • identification and premium passbook (provident fund)
3	Claim form is filled (see Appendices 2 and 3) with assistance from branch manager / coordinator.
4	Claim form is submitted to Board of Awards for initial verification. Board of Awards consists of five officers from the member's centre or branch.
5	Upon initial approval by the Board of Awards, MBA coordinator performs factual verification of claim. This includes a visit to the household of the claimant to verify occurrence, visit to regional registrar's office to verify document authenticity. In the case of the provident fund, this initial approval will be based on an accountant review of the payments.
6	Upon verification by MBA coordinator, MBA coordinator and branch chief jointly approve / reject claim.
7	Claim is paid in cash to claimant at centre / branch. Cash for payment is netted from premium due to MBA in each respective month.

Analysis of Claims Data

Claims data was reviewed for deaths occurring between 30 October 2002 and 31 December 2003 in one of the Provincial Offices of MBA (Quezon Provincial Office). The review included an assessment of when during their membership people were making claims, the level of claims by family member, the percentage of particular family member deaths across the range of membership periods, the seasonality of claims, and finally the time from death to claim settlement. The results of this review are detailed below.

As shown in Figure 4, one-third of all members submitting death claims did so in their first six months of membership, and fifty-one percent made claims in the first year.

Figure 4: Percentage of Clients Claiming by Membership Quarter



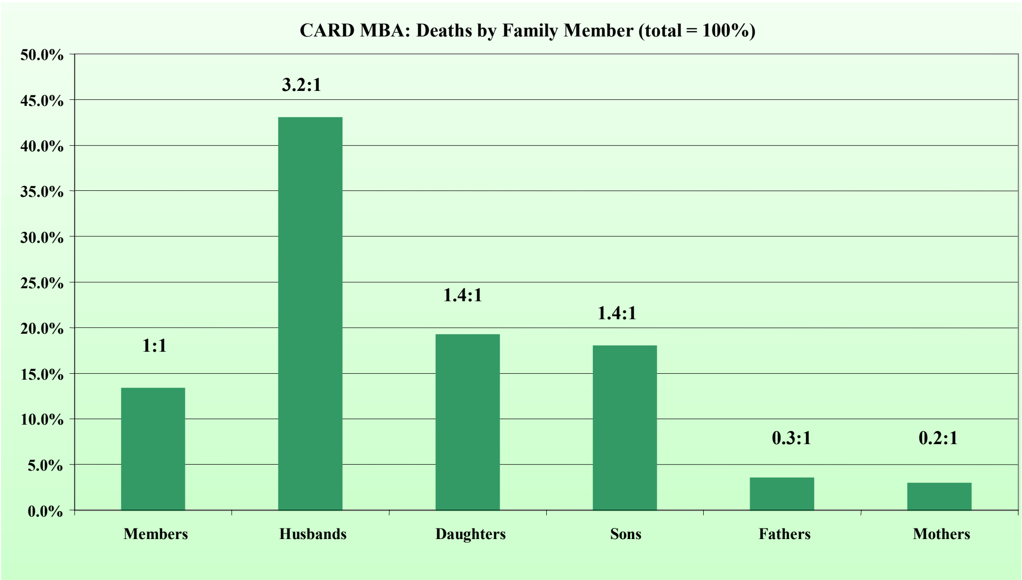
As membership duration extends, the level of claims dramatically drops. Although this seems excessive in the first year, and might suggest an adverse selection problem, two issues make this conclusion unlikely.

The first mitigating factor is that, because this is a mandatory product attached to loans for the bank or NGO, the likelihood of such a proliferation of near death clients and family members seems unlikely. Adverse selection is more frequently a problem of voluntary insurance products.

The second issue is related to the actual volume of total members during the period of claims. CARD experienced growth of almost 70% during 2003. Thus, over 40% of the total membership was in their first year. An even distribution of deaths would thus result in about 40% of the deaths occurring during the members' first year. The 51% observed, may reflect a limited problem with adverse selection, however, it also likely to simply reflect a statistical variance.

MFIs usually can limit insurance risk by linking the eligibility requirements to other financial products. People who are strong enough to run a business and are selected by their peers because they are expected to be able to repay the loans, for example, are unlikely to die of illness during the loan cycle, especially given the typically short term loans offered by many MFIs. However, this says nothing about the health of the husband, children, or parents. Thus, it is intuitive that family members might have a higher mortality than the clients themselves. Indeed, this was observed at CARD, as shown in Figure 5.

Figure 5: Deaths by Family Member



Husbands of CARD members are 3.2 times more likely to die than the members themselves, and children (regardless of gender) are about 1.4 times more likely to die than the member. Thus, the actual rate of death of any child in a CARD family is about the same as the likelihood of the member (since combined, there are

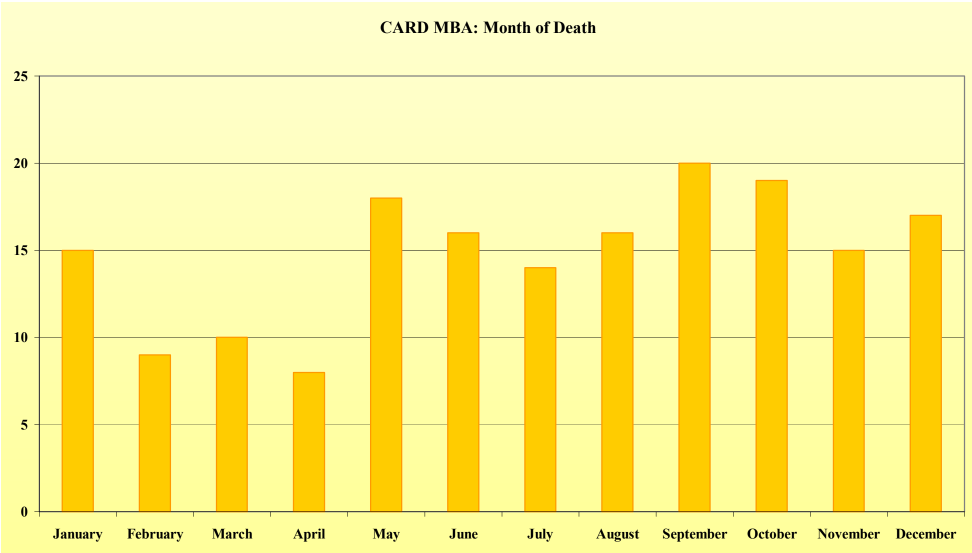
Why are husbands dying so much more frequently than members?

2.8 child deaths per member death and the ratio of children to members is a bit less than 3:1). The concern is with the high rate of husbands' deaths, which could be due to several reasons:

- MFIs can assess the health of their own clients, but they do not know the condition of the spouse. Perhaps some women are borrowing because their husband is ill and cannot work.
- Typically, women have older husbands who have a higher likelihood of mortality.
- Men are often engaged in riskier activities.

An effort was also made to identify potential seasonality issues in the risk of the CARD MBA. Figure 6 shows moderately lighter activity in February, March, and April—the summer months. The other months are relatively consistent between fifteen and twenty percent, suggesting that seasonality is not a significant factor at CARD MBA.

Figure 6: Month of Death



It is generally conceivable that a life insured person could die and their beneficiary might not know of the potential benefit to them. At CARD MBA, since these policies are almost always tied to loans, the field officer and the group members are incentivised to find the named beneficiary because it is only with them that a claim for the loan balance can be submitted. If there is no beneficiary named or that person predeceased the insured, it is the policy of CARD MBA that "In case of death of a member without designating her beneficiary, all benefits due will be paid to her legal heirs according to law."

Timing of Claims Processing

CARD MBA strives to pay claims within three days of receipt of the claim form. However, the organisation does not track this date so it is not possible to assess its success rate. At least the date of death to the date of claim payment is calculable. It was found that for the same data set used in developing the graphs above, the average period of death to claim payment was thirteen days, with a median of nine, and a mode of six over the 176 deaths during that period.

Claims paid within:	Number:	% of Total
5 days	43	24%
10 days	55	31%
15 days	38	22%
20 days	15	9%
>20 days	25	14%
Total Deaths	176	100%

With a maximum number of days to payment of 111, and the minimum paid on the date of death, 55% were paid within ten days of the death. Up to a week for the beneficiary to submit the claim in these cases is certainly reasonable. This would leave the three days promised for processing for CARD MBA.

Delays in claims payments are not uncommon. On the part of the beneficiary, sometimes they find it difficult to obtain a copy of the death certificate, birth certificate, or marriage certificate that is required depending on the relationship to the deceased. On the side of CARD MBA, it is careful to make sure that the documents are authentic, and occasionally this takes time.

According to management, rejection rates are negligible; the main reason for rejection was document fraud.

4.7 Risk Management and Controls

Adverse Selection

The MBA life and provident fund participation is mandatory for all CARD members, and the ALIP is compulsory for all borrowers. Mandatory coverage limits adverse selection because most members are primarily trying to borrow or save, and the insurance cover simply comes along with that product. It is conceivable that someone might join CARD so as to benefit from the insurance, but the likelihood is remote.

Adverse selection becomes a bigger concern, however, for family members who are also included in the coverage because the CARD client can to some extent choose who is included in the policy and family members do not have to undergo any screening. To control for this screening problem, MBA introduced a **contestability clause** in 2003 for deaths or disabilities that occur during the first year of coverage. The "Rules and Regulations of CARD MBA" states: "To maintain the premium low and to safeguard the funds of the Association, the Association is not liable to any loss (death and/or disability) occurring during the first year of membership except caused by accidents and/or diseases acquired within that period as certified by a competent physician other than PhP 1,000 [US$18] gratuity in case of member's death or total and permanent disability."

This clause has been the source of some confusion for members and coordinators, but once CARD determines how to communicate this rule clearly, it should be a cost effective means for controlling adverse selection. The alterative approach would be to get all family members included in the policy to sign a declaration of good health, but that would be an administrative headache.

Fraud and Moral Hazard

MBA coordinators work for a one year term and must wait for a year after ending their term before being eligible for re-election. This staffing rotation makes it more difficult for the coordinator to become involved in any arrangement that would cause her to neglect her fraud detection and claim verification duties, or to become involved in fraud herself.

The policies cover death and old age, which have unambiguous claims triggers. Isolated cases have been noted of document falsification, usually in the form of fake death certificates. This type of fraud is relatively easy to detect as all claims must be verified by the MBA coordinator, and reviewed by a five person local Board of Awards. With seven people involved in the claim payment process, there are ample controls and review mechanisms. At the same time, collusion is difficult because there is not enough claim settlement to go around among seven people.

CARD MBA does have a standard exclusion for suicide as stipulated in the insurance code: "the insurer in a life insurance contract shall be liable in case of suicides only when it is committed after the policy has been in force for a period of two years from the date of its issue or its last reinstatement." MBA has never rejected a claim due to the suicide exclusion. It is unclear whether CARD would actually enforce this exclusion, especially for members, since that would mean that the bank or NGO would have to collect the outstanding debt from the member's family.

Cost Escalation

Because the benefits are clearly defined, there is virtually no potential for claims costs to escalate. The cost of operations is another matter. If membership continues to grow at 50 percent per year, significant IT investment will be needed to automate the membership process and to develop analytical tools to handle the increasing workload.

The other increasing workload that MBA will have to manage is the processing of provident fund claims, which have only been trickling in at the moment, but will increase significantly as more members hit retirement age. The processing of claims is relatively straightforward if members have diligently saved their PhP 5.00 every week, and if the return remains fixed at 8 percent. If there are gaps in participation, however, or if the rate of return starts fluctuating, the calculation of interest can become quite complicated, especially with the NGO's manual system.

Increase in membership may also put additional strain on MBA coordinators, or in the management of coordinators. It is possible that this relatively inexpensive labour force could become more expensive, especially if they assume additional responsibilities or if new products increase the degree of complexity of their work.

Covariant Risk

Although there is some potential for covariant risk related to weather issues, CARD members are disbursed throughout large parts of the country, thus limiting the impact of any major event.

Interestingly, CARD MBA does not have any usual exclusions for war, riots, natural disasters, etc. that insurers typically tack on to life insurance policies. This omission might reflect the social agenda of a microinsurance provider, which does not want to abandon its customers when they need it most. More likely, it reflects an insurance provider that is primarily structured to support a microfinance institution. If loans go bad because of a natural disaster, the MFI side of the mutually reinforcing institutions would want the MBA to cover the losses.

4.8 Marketing

Since MBA does not conduct any marketing activity and relies on member word of mouth regarding its reputation to encourage membership, only a relatively immaterial amount was budgeted for marketing. CARD has found that with its target market the most effective means of marketing is person to person, which builds the consumer's confidence in the financial service provider. In terms of the MBA products, these are spoken about by the MBA coordinators and the CARD technical officers, but ultimately these are obligatory products so the marketing requirements are limited. However, the need for client education about insurance remains.

4.9 Customer Satisfaction

The insurance relationship continues for the duration of one's membership in CARD. While there are certainly some people who discontinue their membership with CARD, it is difficult to disaggregate their motivations as to whether it stemmed from a problem with insurance or CARD's other services.

In 2003, CARD MRI commissioned a study to review exits from the bank and NGO, and identify the reasons for these exits.[15] Though not directly related to MBA's operations, some results are relevant to microinsurance and risk management. Three tables from that study are reproduced here (in an abbreviated form) to provide some information about the perceptions of members in relation to the MBA product line.

The first table looks at satisfaction of members in the CARD programme; with members identifying insurance as the "thing" they liked best about CARD (41.5%) after only the loans themselves (46.3%).

[15] The source of data for the three tables presented in this section is: "CARD's Experience on Dropouts: Results & Findings of an Exit Survey" (2003).

Table 20: Satisfaction of Respondents in CARD Program

	Quezon 2	Occ. Mindoro	Or. Mindoro	TOTAL	% Share
Things that they like about CARD	(n=29)	(n=12)	(n=41)	(n=82)	
loan: steady source of working capital	8	7	23	38	46.3
MBA (insurance)	13	4	17	34	41.5
easily accessible services	11	-	7	18	22.0
no collateral or guarantor requirement	5	1	9	15	18.3
savings	4	2	4	10	12.2
group solidarity and/or group dynamics	4	2	3	9	11.0
education session	2	1	3	6	7.3
scholarship	1	-	2	3	3.7
Others	2	-	1	3	3.7

Exited members were asked if they had any interest in rejoining CARD Bank or NGO. Fifty five percent noted that they were interested in rejoining, and 17% said that they would rejoin if there were certain changes in CARD. Among these changes, one person each, of fourteen, noted that they would come back if there was a reinstatement of the emergency loans and the multi-purpose loans. Both of these products potentially serve as risk management tools for the CARD market.

Table 21: Perceptions of Respondents on Joining CARD Again

	Quezon 2	Occ. Mindoro	Or. Mindoro	TOTAL	% Share
Interested to join CARD again?					
*** Yes**	**18**	**4**	**23**	**45**	**54.9**
*** No**	**7**	**3**	**9**	**19**	**23.2**
*** Will rejoin only if there will be changes**	**4**	**4**	**6**	**14**	**17.1**
- What changes?					
– [Several items edited out by the authors]					
– **Bring back emergency loans (1)**					
– **Bring back multi-purpose loans (1)**					
Will you recommend your relatives or friends to join CARD?					
*** Yes**	**21**	**8**	**37**	**66**	
- Why?	**(n=19)**	**(n=7)**	**(n=35)**	**(n=61)**	
- CARD is a big help (21)					
- So they can also borrow for their capital needs (18)					
- **So they can also benefit from insurance (11)**					
- CARD has good policies (10)					
- [Several items edited out by the authors]					

The same research exercise was used to query ninety-one members about what in their lives was better because of their activities with CARD.[16] Their comments were divided into membership age categories to identify what is important to members as they mature in the programme. Three items related to insurance emerge from the data. Of the three, two are ambiguous as to their direct relationship to the MBA. Just over 10 percent of members said that they now have money to pay for emergency expenses. This improvement is likely related to loans, microinsurance, and the savings deposited in CARD Bank. Nearly 2 percent noted that they could help with family expenses, including for family insurance. This response too is likely related to the array of CARD products. In the last position, 0.8% of the members mentioned that they are better off because of the MBA and its insurance benefits. MBA was not even mentioned in the shortest or longest member group.

Table 22: Member Perceptions of What is Better in their Lives Because of CARD

	Description	**0 Year % Share**	**2.5 Years % Share**	**6 Years % Share**	**9 Years % Share**	**ALL % Share**
1	Able to expand/improve business/additional capital/repair productive assets	60.3	52.7	38.9	24.7	48.5
2	Able to put-up business/has own capital for business	30.7	27.0	13.9	23.3	52.8
3	Able to purchase business/productive assets/purchase business inputs	47.5	29.7	41.7	45.2	42.7
4	[Priority items 4 – 8 edited out by authors due to irrelevance to microinsurance]					
9	***Has money in times of needs/emergency expenses***	***9.4***	***21.6***	***9.7***	***13.7***	***10.3***
	[Priority items 10 – 15 edited out by authors due to irrelevance to microinsurance]					
16	Able to help in other extraordinary family expenses (weddings, giving birth, board exams, job applications, expenses for abroad, ***family insurance***, land survey)	***2.2***	***0***	***2.8***	***1.4***	***1.8***
17	[Priority items 17 – 23 edited out by authors due to irrelevance to microinsurance]					
24	***MBA/ Insurance benefits***	***0***	***1.4***	***2.8***	***0***	***0.8***

With a mandatory product, it is rather difficult to gain a firm understanding of the true demand for microinsurance. CARD has made some efforts to understand this demand and how it affects its business. One final set of results, based on research conducted in 2002 by CARD and Freedom from Hunger, provided rather surprising findings about the importance of the MBA products to CARD members (see Box 3).

Box 3. Incredible Survey Results

In a 2002 qualitative survey conducted by Freedom from Hunger, twelve out of twenty-seven focus groups interviewed named MBA insurance as *the most valuable aspect of the entire CARD product portfolio*. Such a result runs contrary to experience with similar arrangements in other countries, where insurance is never rated highest on a scale of product value for an institution that offers savings and credit facilities, often because of its intangible nature.

[16] Members were also asked what was worse in their lives because of CARD, but there were no comments on these results that were relevant to microinsurance or the MBA.

Based on these results, and discussions with members and others, there is certainly demand and appreciation for the MBA products. It would be helpful to conduct a focused study looking specifically at the customer satisfaction of these products. This research would be an important activity especially given the expansion plans, internally within CARD, domestically with other organisations, and regionally in other countries. Understanding the true demand for the MBA products will help in properly replicating them.

5. Results

To monitor performance, management uses a monthly CARD MBA Operations Update document generated by the administration and finance department (see Appendix 4). This document allows management to track information for the current month and year-to-date, including membership changes, claims and operating results—by product and total—as well as expense levels. This information covers data at the level of the underwriting result, and is not a full monthly profit and loss statement as it does not include investment income.

5.1 Financial Results

Both insurance products have been consistently profitable. Based on the data in the MBA Operations Update, Tables 23 and 24 show the operating result for each product (premium less reserves, cash claims and expense allowance, and plus interest and other income). It is interesting to note the huge leap in profitability for the loan insurance in 2003. Although MBA usually pays claims out of cash inflows, the 2003 ALIP claims were paid out of reserves, which substantially boosted revenues for the year.

Table 23: Operating Results

Operating result (in thousands of PhP)	YTD 04/2004	2003	2002	2001
Life Insurance	745	4,019	918	788
ALIP	4,142	21,932	7,593	3,618
Operating result (in thousands of current US$)				
Life Insurance	13.5	73.1	16.7	14.3
ALIP	75.3	398.8	138.1	65.8

Table 24: Profitability

% Profitability[17]	YTD 04/2004	2003	2002	2001
Life Insurance	8.6%	16.8%	0.12%	13.5%
ALIP	105.9%	94.8%	37.6%	51.2%

The profitability of products for MBA's main partners, CARD Bank and the NGO, may be assessed based on a comparison of the fees received with the cost incurred in the provision of services to members. This analysis, summarised in Table 25, is based on the following assumptions:

- Branch managers spend 2 days per month handling MBA-related issues (claim settlement and payment)
- Bookkeeping staff spend 1 day per month preparing premium transfers and related documentation
- Daily pay for a management position is PhP 500
- Daily pay for a clerk position is PhP 300

[17] Profitably in terms of income / premiums.

Table 25: Does the MFI Benefit from Insurance? Data for 2003[18]

Income	Annual Costs (PhP)	Annual Cost (current US$)
Handling fee (2%) of premiums	1,406,000	25,600
TOTAL INCOME	1,406,000	25,600
Expenses		
Management costs (2x500x76x12)	912,000	16,600
Clerk costs (1x300x76x12)	274,000	5,000
TOTAL EXPENSES	1,186,000	21,600
NET INCOME CARD Bank / Inc	**220,000**	**4,000**

This analysis shows that the handling fee is appropriate on a basic level (without the addition of overhead and indirect costs); even if does not constitute a significant source of income.

Perhaps a more important source of income for CARD Bank is the spread on deposits placed by MBA with the bank. As of end of 2003, MBA's deposits with the bank amounted to PhP 82 million (US$1.5 million). Each point of spread obtained on reinvestment of such deposits is worth PhP 820,000 (US$15,000) annually to CARD Bank, and the spread is often several points.

The key performance results for CARD MBA are summarised in Table 26. The net income in the range of 30% for 2002 and 2003, and trending upward, shows significant profitability with these products.

Table 26: Key Results for CARD MBA

(in millions of PhP, where appropriate)	2003	2002	2001	2000
Net income (net of donor contributions)	$0.39	$0.23	$0.04	($0.003)
Total premiums (value)	$1.27	$0.88	$0.34	$0.13
Growth in premium value	44	161	171	116
Claims / total premiums (%)	16	14	18	35
Administrative costs / premiums (%)	10	9	11	10
Commissions / Premiums (%)	2	2	2	2
Reinsurance / Premiums (%)	-	1	-	-
Reserves added for the period / Premiums (%)	19	27	35	38
Net income added for the period / Premiums (%)	31	26	11	-3
Claims cost per total number insured	$ 0.34	$ 0.36	$ 0.24	$0.25
Growth in number of insured (%) year - on - year	68	39	40	-
Income earned from investment of premiums	$0.09	$0.04	$0.02	$0.006
Percentage of profit distributed	Nil	Nil	Nil	Nil
Renewal rate (%)	N/A	N/A	N/A	N/A

Reserving for the three products is done in accordance with, or in excess of, Insurance Commissioner approved reserving levels and policies. Table 27 shows reserving information per product according to the actuarial memorandum.

[18] Expenses are calculated by the authors.

Table 27: Reserves

Life Insurance:	50% of premium
Provident Fund:	98% of premium, increased by interest received, which is reinvested in the Fund.
Loan Redemption Insurance:	50% of premium

5.2 Impact on Social Protection Policy

CARD MBA has an important role in enhancing, and in at least one planned case enabling, the government's effectiveness with its social protection policies. In the case of PhilHealth, the Government's vehicle for heath financing, it is experiencing significant difficulties in efficiently reaching the self-employed market. With a planned agency relationship with CARD MBA, CARD will assist the government in developing a more appropriate product, and then would add that product to its microinsurance menu.

The social security system and the Government Staff Insurance Scheme cover their members for pensions and funeral benefits, but are not successful in providing such services to the self-employed. CARD MBA could provide a mechanism for its members to obtain similar benefits (life and disability insurance, and a provident fund for retirement).

CARD does lobby government for improvements in microinsurance policy, not only to facilitate its own needs, but also to enhance the overall quality of microinsurance products being offered in the market. It would rather have competitors offering good products that are priced and serviced properly, than compete against poor quality products and institutions that are not serious.

6. Microinsurance Product Development

A formal product development process is critically important to the success of a new microinsurance product. CARD has improved its process over time based on lessons from the difficulties of not following such a process. Indeed, with its proposed "dread disease" health insurance product that it tested in 2003, the organisation was wise enough to pull the plug after the pilot testing phase. MBA's market demand and client satisfaction activities have also become a more important aspect of its product development process.

6.1 Concept Development

Demand research has been based on questionnaires administered by MBA coordinators among CARD members. Word-of-mouth product concepts are also passed on to management by MBA coordinators in regular meetings and day-to-day contacts. In addition, formal satisfaction studies and demand research have been conducted to identify product concepts and ideas. Additional research was done with the assistance of Freedom from Hunger.

On a case-by-case basis, management reviews competitive activities, especially when demand research suggests the development of new products. The MBA has been, and continues to be, at the forefront of the market, with few competitors. Indeed CARD expends significant effort training other institutions in the Philippines and internationally about the CARD MBA methodology.

CARD management now continually assesses its capacities, especially as a result of the problem with the MMF that highlighted the importance of having professionals running technical operations. Previously, managers focused more on members' needs than on the viability of the institution; now they are conscious to strike a balance between the two.

6.2 Product Design

In the past, product design was based on member demand as communicated to management by field staff. Now product concepts are still derived from members, but those results are analysed and used by insurance professionals. This professionalisation of the product design process helps MBA to ensure that products are designed and priced appropriately for both the insurer and its policyholders. Additionally, new product designs are submitted to the insurance commission for review.

The product prototype is developed in-house, with benefits and premium calculations supported by an actuarial memoranda. Complete product design is presented to membership in meetings for preliminary approval by vote, with majority vote required for product acceptance by membership.

6.3 Pilot Testing and Rollout

New products are pilot tested through temporary offering in a selected number of branches. For example, CARD MBA had a brief foray into health insurance with its members. Because of very strong demand from members for medical cover, in 2003, the dread disease health product was offered in 6 branches for 1 year. The product covered clients against severe and likely terminal diseases; if the insured was actually bedridden, funds were available on a reimbursement basis through the provision of a receipt.

Management notes that it was very clear to the clients that the product was being tested on a small group for one year before rollout. However, even before the end of the trial period, it was apparent that implementation would not be possible without a complete revision of the policy. Additionally, it was recognised that most of the required changes were related to controls. MBA decided to abandon it rather than redesign a product that it was not likely to properly control. Two key issues driving that decision were:

(1) Because the benefits were payable upon provision of a receipt, several members became quite skilled at forging medical receipts. This fraud can be very difficult to minimise without significant computer systems, special relationships with providers, and payment directly to the health care provider.

(2) Significant discord developed between members, branch managers, and MBA Coordinators. Numerous members argued that they were deserving of benefits when they were not. Branch Managers wanted to help these members get their benefits because the member's loan was in arrears and the Branch Manager wanted the funds to cover the loan. The coordinators wanted to follow the rules but were thwarted by the other parties.

Thus, even though there was, and continues to be strong demand for health related products, the dread disease product lasted less than one year before it was closed. MBA management assessed its abilities to offer such a product professionally and responsibly decided not to continue in this product line. The Board of Trustees, based on the recommendation of management, decided not to roll out the product.

6.4 Product Review and Assessment

Product review is based on quantitative analysis through the monthly MBA Operations Update. CARD, MBA management, and the board determine if there is any need for concern based on their assessment of these reports. Usually management suggests any adjustments to the board for their consideration.

6.5 Product Development Cost

Product development activities are conducted in-house as part of the general operating budget; the sole exception is the cost of actuarial consultation that is outsourced but also financed from the operating budget. For frequent actuarial oversight, the Canadian Cooperative Association has provided a part-time actuary who is also working with CARD MBA management to develop a training and development arm that will work with other MBA's in the region (see Section 7.1).

7. Conclusions

7.1 Significant Plans

There are no plans to alter the current insurance products. CARD management has noted that its additional products programme—where non-insurance related activities are conducted such as the marketing of members' products and the provision of livelihood training—will be reviewed with the intention of shifting these valuable activities to a more appropriate institutional home within the MRI, and then identifying some insurance reinforcing activities to replace them. Management recognised that unrelated activities divert the focus from core functions of the MBA team and that to manage them appropriately requires different skills than those of an insurance company.

New Products

For several years, CARD has recognised its members' health care financing needs and has sought out means to address them. Recently, it has been meeting with senior officials of the Government's health insurance arm, PhilHealth, which is mandated to provide health insurance to all Filipinos but has had difficulty reaching the self-employed. At least initially, this looks like a perfect match and an ideal potential for a partner-agent model approach. In this case, CARD MBA would act as a broker, with CARD Bank and CARD Inc. as the agents selling this product to their members.

Such a product would require voluntary sales, which would have a significant impact on the procedures and efficiency of the current delivery model. This issue is being discussed by CARD management as one of the greatest challenges to consider with the PhilHealth product.

In July 2004, there is a donor plan to gather key informants to help PhilHealth develop a better product for this market. CARD will be represented on that team.

After working with PhilHealth for a few years, CARD MBA will assess whether it should continue the relationship as it is currently constituted, take over the medical care financing of its members from PhilHealth, or provide a supplemental cover to its members under its own license. At that point, it will be in a better position to consider these options. For now, CARD is committed to developing a strong relationship with PhilHealth.

Strategy Adjustments

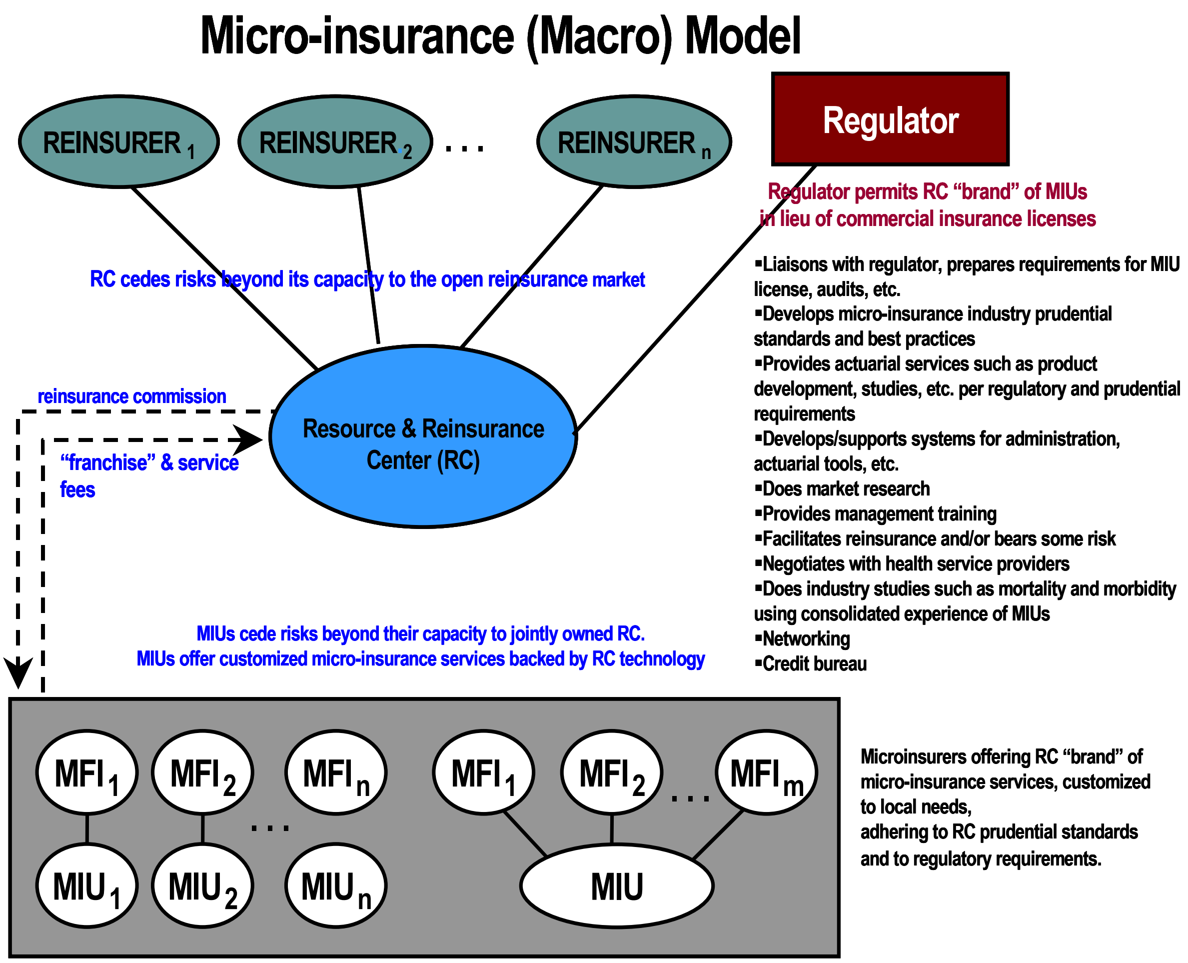
CARD has experienced significant demand from MFIs, mutuals, and others for exposure and training on the CARD MBA model. It has provided much assistance to these organisations, but sees a need for greater involvement so that major mistakes are averted.

Management explored the option of insuring the members of the other MBAs, but rejected this possibility because, even though its risk pool would grow, CARD did not want to take on additional risk. Instead, with the assistance of CCA, CARD is moving towards a strategy in which it will provide technical assistance and perhaps reinsurance to other MBAs.

To do this, CARD and the CCA are creating a regional (Southeast Asia) microinsurance technical assistance company: Risk Management Solutions, Inc. (RIMANSI). In this proposed scenario, CARD would earn consulting fees for assisting the MBAs to get started, and later could benefit by extending reinsurance to these organisations once they are stable, but would not assume any start-up risk. In addition to enlarging the risk pool, there are also significant potential economies of scale in the medium and long term, particularly for the insurance regulator that can monitor the apex rather than numerous individual MBAs.

Generally, RIMANSI would work with associations and other organisations to develop their own mutual benefit association following the CARD model, and adapted to local conditions. Following a process of "Build, Operate, Transfer" RIMANSI will shift to a less intrusive technical assistance role once the MBA is operationally and financially stable. In the future, RIMANSI would work to bring these MBAs under a single umbrella to develop and manage synergies among the MBAs. Additionally, in the long-term planning, RIMANSI might consider obtaining a license as a reinsurer to provide such services to the member associations. A model of the planned RIMANSI structure is provided in Figure 7.

Figure 7: The RIMANSI Model of Technical Assistance to MBAs



Benefit Adjustments

CARD MBA has recently reviewed with its actuary the issue of offering single members dependent coverage for parents over age sixty. Its concern is the dramatically higher level of mortality for this cohort and the fact that the organisation currently does not have an age ceiling for dependent parents. The actuary suggests, "For single members, the dependent parents are includable up to age sixty-five only. Parents below sixty years old can be considered legal dependents of a single member." CARD MBA Management and the Board will consult the general membership on this proposed change at the March 2005 general membership meeting.

7.2 Key Issues Summary

Major Breakthroughs

The most significant breakthrough is the establishment of a successful combination of core financial services provided by CARD Bank, CARD Inc., CARD MBA and CARD Training, all part of the CARD Mutually Reinforcing Institutions. This family of companies are linked through products and services, and their coordination is managed by the CARD MRI. This system improves efficiency on several levels and allows for an integrated approach to financial service delivery.

The relationship of MBA to its CARD partners ensures continued portfolio stability, effective controls against moral hazard and adverse selection, as well as offers 100% market penetration within the CARD member market.

Another breakthrough is the successful closeout of the Members Mutual Fund, initially a part of CARD Inc., into a separate regulated, client-owned Mutual Benefit Association. The MMF, because of its pension product, had the potential to bankrupt the rest of the CARD system. Extricating itself from the looming disaster and shifting the insurance liability to a separate company—yet one that remains part of the CARD MRI— was among the most important events in the organisation's history. This example highlights three critical issues:

1) Organisations that try to manage both insurance and credit risk are extremely vulnerable;
2) There is significant potential for a separate yet linked insurance company to meet the risk-management needs of MFIs and their clients; and
3) Microfinance institutions must maintain a close and collaborative relationship with members and clients.

Major Challenges

The growth of CARD MBA's partners is significant and dramatic. Currently MBA receives electronic information from the bank and manual data from the NGO. As business grows, it will be imperative for MBA to improve its IT capacity. To manage greater volumes, MBA needs to shift to standardised electronic data so it can easily integrate the different components of activity and generate reports.

MBA's current analytical tools are weak. Greater analysis will be needed for the early detection and counteraction against adverse selection, fraud, or other insurance risks.

Especially with the development of RIMANSI to provide technical assistance to other MBAs, CARD's information technology will be a key competitive advantage.

Because the current products are obligatory, it will be a challenge to understand the actual demand for these products. However, it will be important for CARD to address this issue as it gets larger and faces competition. Furthermore, it will be necessary to better understand demand if management is considering offering voluntary insurance products.

The growing demand for health insurance will push MBA into the provision of this service in foreseeable future. Such a move will force the reorientation of the structure because the challenges of health care financing will be too much for its current field staff. This transition will require the development of systems to manage voluntary purchase of insurance, which will necessitate moving MBA toward a more professional and corporate approach, and result in a structure from which it could sell almost any type of insurance.

Key Lessons

Product Management

- Manage the **product evolution.** These products have evolved significantly from the initial credit life product. CARD has responded to member demands for an expanded array of products and covered individuals. In some cases the institution had difficulties because the product evolution was not well managed. CARD MBA is clear now that any adjustments or additions to the product line must be thoroughly assessed in advance and tested. Managers understand that product changes should only be done by insurance professionals with specific skills and experience.
- New product development requires a clear understanding of **demand**, *and* a clear understanding of what impact the potential product is likely to have on the **institution**. The pension scheme was a great benefit to the members, but there was no assessment of its impact on CARD until it was too late to save the organisation from significant grief.
- **Abandon a pilot test** if the product, its processes, or its management does not work as expected. CARD MBA pilot tested a health insurance scheme and found it to be much more expensive than expected in terms of claims, operations, and management expenses. This product was not rolled out and management is quite confident that stopping the scheme was definitely the right decision
- A microinsurance product can be developed and implemented reasonably well with **limited donor funding**. The CARD MBA has received no funding directly from donors, and has developed a set of rather simple insurance products that have the potential to assist many low-income households. However, donor funding to other CARD agencies has provided important infrastructure and the delivery mechanism for CARD MBA to operate effectively and efficiently.
- Even if you have a related insurance company, it is sometimes prudent to **outsource risk**, especially for a new and complex product. After recognising the difficulties in managing its dread disease scheme, CARD MBA is now considering outsourcing health insurance to PhilHealth. This relationship will give CARD the ability to offer health insurance to its members without assuming any insurance risk. At the same time, MBA can develop the

special skills of health insurance so that CARD may choose to offer it on its own in the future.

- When there is **bad news** to tell the members, it is helpful to include something that they appreciate at the same time. For example, one of the reasons CARD was able to get member agreement to the elimination of its pension liabilities is because CARD offered to start an MBA that members would own.

Operations

- Within the insurance business, focus on **activities that reinforce the insurance activities** and potentially reduce overall risk. Benefits such as free medical clinic days, or workplace risk reviews, or distribution of risk management information, might benefit members and help reduce the overall risk on the insurer's books. CARD MBA is offering unrelated services for its members that are taking time and attention away from the insurance business.
- Insurance premium **payments that are tied** directly to loan payments may become lapsed if the portfolio quality is not kept to a very high standard. The services are quite different but the payment is tied to one event, of which the premium is relatively insignificant to the borrower.
- When insurance products are offered to a member's family, the insurer has no idea of the health condition of the rest of the family. People could join knowing a family member was gravely ill so that they could make a quick claim. CARD found that spouses die at a rate of 3.2 times as much as its members (who are virtually all female). The **contestability clause** introduced by CARD has had a positive result in curbing this risk.

Governance and Management

- When the board of an insurance company is comprised of only members who have virtually no experience in corporate governance it is necessary to have an advisory group that is experienced and has the authority to guide the board. Such an advisory committee has been critical to the successful oversight of CARD MBA.
- Sound and objective **business analysis and planning** are necessary for the successful launch and continued sustainability of a new product. This should follow a formal and controlled process that includes pilot testing, and actuarial review. The Members Mutual Fund was launched without these and led CARD to a disastrous precipice.
- Consider the **tax implications** carefully if you want to create an insurance company. CARD wanted to convert the MBA into a formal full service insurance company. When it realised the tax implications, that plan was abandoned.

Staffing and Marketing

- CARD MBA recognises the importance of **staff training**. During its Annual Conferences, when all coordinators are in attendance, MBA spends a day providing induction training.
- Coordinators are selected from the membership for **one-year terms**. Although this requires much training, CARD sees several benefits to this strategy:

  - The short term limits the ability of coordinators to get too clever (in terms of fraud issues)
  - It builds a large pool of members that not only understand, but have experience working with the insurance products
  - More knowledgeable policyholders improve the role of members in MBA governance.
- The **prestige** of being selected as a coordinator has a significant non-cash incentive value. This helps CARD MBA to obtain low-cost labour, which minimises the requirements of the CARD Bank and CARD Inc.
- **Marketing costs** can be significantly reduced by offering compulsory products through existing delivery networks. Marketing costs for CARD MBA are miniscule because it uses the bank and NGO as its delivery mechanism.

Advice for Others

Some the critical advice from CARD to MFIs who are considering a move towards microinsurance, include:

- "Follow your calculator, not your heart." Insurance requires understanding the financial implications of not just the premiums, but also of the claims and expenses.
- "The successful tie-in with core financial products is a key to success." The delivery of insurance through the bank and NGO allows CARD MBA to be extremely, making premiums more cost effective for the low-income market.
- "The core business is most important" and you should not move your focus from there. CARD started moving into insurance when its core business was loans. This did not work, and ultimately the organisation needed to separate the businesses.
- "You need to know your members and they need to know you." Because of the relationship between CARD and its members, they were ultimately willing to relinquish CARD of its responsibility for the pension obligations.

CARD management has learned important lessons about separating the insurance business from the MFI business. Its narrow escape from disaster showed that one should not manage an insurance business without the right resources: professional insurance management, actuaries, and systems. CARD's experience has made it stronger; now it has an efficient set of insurance products for the low-income market from a mutual benefit association that is owned by the members.

The operations of CARD MBA are now running smoothly under strong and professional management. Given future growth expectations, the organisation is developing a new computerised system for managing and analysing data. Furthermore, the development of the Risk Management Centre will assist CARD MBA and others throughout the region.

The CARD model is successful. Many lessons can be learned from its experiences.

Appendix 1: CARD MBA Insurance Certificate

CARD Mutual Benefit Association, Inc.

CARD Mutual Benefit Association Inc. MBA 1999

SERTIPIKO NG PAGIGING KASAPI

SERTIPIKO BILANG:
NAKATALA SA INSURANCE COMMISSION
SA LISENSIYA BILANG: 2001-1-0

Ito ay nagpapatunay na si

____
(PANGALAN NG KASAPI)

ng ________________ ng ________________
(CENTER NAME) (BRANCH NAME)

ay

K A S A P I

ng **CARD Mutual Benefit Association, Inc.** (CARD MBA), at siya ay binibigyan ng lahat ng karapatan at pribilehiyo ng pagiging isang kasapi, pasubali na ang kanyang pagiging kasapi ay tuloy-tuloy at pasubali muli na siya ay susunod sa mga Alituntunin at Patakaran ng Samahan at lahat ng mga probisyon na may patungkol dito.

Ang kanyang pagiging kasapi ay nagkabisa nitong ika ____ ng ________, ____.

ALEXANDER M. DIMACULANGAN
TAGAPAMAHALA

PINAGTIBAY NI:

PILAR B. GARCIA
PANGULO - CARD MBA

(NASA LIKOD ANG MGA BENEPISYO NG ISANG KASAPI)

PAUNAWA: Sa nalolooban ng unang isang taon buhat ng maging kasapi, hindi pananagutan ng Samahan ang pagkamatay ng isang kasapi o lehitimong kaanak nito kung ang naging dahilan nito ay SAKIT na tinataglay na niya/nila bago pa maging kasapi.

Appendix 2: Claims Settlement Sheet – All Loans Insurance Package

MBA Form No. 13

CARD Mutual Benefit Association, Inc.

CLAIM SETTLEMENT SHEET for
ALL LOANS INSURANCE PACKAGE

NAME OF DECEASED
MEMBER-BORROWER: ______________________ AGE: ______
BRANCH NAME: ______________ CENTER'S NAME: ______________

LOAN AVAILMENT			
TYPE OF LOAN	AMOUNT OF LOAN	PAYMENT MADE AT THE TIME OF DEATH (Payable to beneficiary)	BALANCE OF LOAN AT THE TIME OF DEATH (Payable to the bank/NGO)
Regular			
Housing			
Multi-purpose			
Emergency			
TOTAL			

SUPPORTING DOCUMENTS:

1. For single release of loan amounting to **LESS** than Php 40,000.00
   1.1. Weekly Payment Schedule
   1.2. Photocopy of Death Certificate
2. For single release of loan amounting to **MORE** than Php 40,000.00
   2.1. Weekly Payment Schedule
   2.2. Promissory Note
   2.3. Photocopy of Death Certificate
   2.4. Copy of Birth Certificate of the deceased member-borrower.
   2.5. Physician's Statement – to be filled up by attending physician at the time of death.
   2.6. Claimant's Statement – to be accomplished by the Branch Manager.
   2.7. Certificate of Identification – to be accomplished by MBA Coordinator.
   2.8. If the cause of death is due to accident, a copy of Police Report is required.

Prepared by: Reviewed and Approved by:

______________________ ______________________
Technical Officer Branch Manager

NOTE: ALL CLAIMS DOCUMENTS FOR LIFE INSURANCE BENEFITS AND FOR ALL LOANS INSURANCE PACKAGE, INCLUDING A COPY OF VOUCHER DULY SIGNED BY THE BENEFICIARY, SHOULD BE FORWARDED TO MBA HEAD OFFICE FOR REINSURANCE CLAIM'S PURPOSES.

Appendix 3: Life Insurance Claims Settlement Sheet

MBA Form No. 07 & 08 (Revised 9-12-03)

PETSA : ____________________

PARA SA : ***BOARD OF AWARDS (BoA)***

MULA KAY : ____________________
PANGALAN NG HUMIHINGI NG BENEPISYO

TUNGKOL SA : ABISO NG PAGKAMATAY/PAGKABALDADO ni ____________________

SANHI NG PAGKAMATAY / PAGKABALDADO: ____________________
PETSA NG PAGKAMATAY / PAGKABALDADO: ____________________
TIRAHAN NG NAMATAY / NABALDADO: ____________________
KAPANGANAKAN NG NAMATAY/NABALDADO: __________ EDAD: ____ KAUGNAYAN SA KASAPI: __________
PANGALAN NG KASAPI: ____________________ PETSA NG MAGING KASAPI: __________
PANGALAN NG *BRANCH*: ____________________ PANGALAN NG *CENTER*: __________

Kalakip po nito ay *'**Certified True Copy**'* ng mga sumusunod na dokumento:

1.(__) ***Marriage Contract*** - kung namatay ay asawa ng kasapi at lehitimong anak nito. At *Marriage Contract* naman ng magulang ng kasaping walang asawa kung namatay ay ang magulang nito na 60 taong gulang o higit na.

2.(__) ***Birth Certificate*** - kung ang namatay ay lehitimong anak ng kasapi. At *Birth Certificate* naman ng kasaping walang asawa kung namatay ay magulang nito na 60 taong gulang o higit na.

At kalakip din po nito ang orihinal na kopya *(original copy)* ng mga sumusunod na dokumento:

3.(__) ***Death Certificate*** / (__) ***Doctor's Certificate of Total & Permanent Disability***

4.(__) **Pagpapatunay ng mga Kasapi** ng *Center (Center Resolution)* sa tunay na pangyayari at pagpapatunay na rin na ang kasapi ay aktibo at bayad sa lahat ng kaukulang kontribusyon.

Sana po ay bigyan ninyo ng kaukulang pansin ang ang kahilingang ito.

____
LAGDA NG HUMIHINGI NG BENEPISYO
SA IBABAW NG LIMBAG NA PANGALAN
Petsa ng lagdaan: ____________________

PARA KAY : ____________________
PANGALAN NG *MBA COORDINATOR*

PAKSA : **PAGPAPATIBAY NG KAPASIYAHAN NG *BOARD OF AWARDS***

Ayon sa Alituntunin at Patakaran ng *CARD MBA* at batay na rin sa mga dokomentong kalakip nito, ang resulta ng aming talakayan sa pagkamatay/pagkabaldado ni ____________ ay nagkaroon ng boto na _____ **dapat bayaran at** _____ **hindi dapat bayaran ang benepisyo.**

Dahil dito, ang kahilingang benepisyo ay pinagpasiyahan at pinagtibay na:

(__) karapat-dapat bayaran ng halagang Php ____________.
(__) hindi dapat bayaran ang benepisyo dahil sa ____________________
(__) pigilan ang pagbabayad ng benepisyo dahil sa ____________________

Sana po ay mapag-ukulan ninyo ng pangunahing pansin ang bagay na ito.

Upang patunayan at pagtibayin ang kapasiyahan na nasasaad sa taas, kaming bumubuo ng *Board of Awards* ay lumagda ngayong ika- ___, ng __________, 2001.

PANGALAN	LAGDA	PANGALAN	LAGDA
CENTER SECRETARY		***CENTER AUDITOR***	
CENTER TREASURER		***PROJECT MANAGER***	

____
LAGDA NG ***CENTER CHIEF***
SA IBABAW NG LIMBAG NA PANGALAN

PARA KAY : ____________________
PANGALAN NG ***BRANCH MANAGER***

PAKSA : **BENEPISYO PARA SA PAGKAMATAY/PAGKABALDADO ni** ____________________

Ayon na rin sa kapasiyahan ng *Board of Awards* at sa mga dokomentong kalakip nito, ang kaukulang benepisyo sa pagkamatay/pagkabaldado ni ____________________ ay:

(__) karapat-dapat bayaran ng Php ____________
(__) hindi dapat bayaran dahil sa ____________________
(__) pigilan ang pagbabayad dahil sa ____________________

SINANG-AYUNAN NI:

____
LAGDA NG ***MBA COORDINATOR***
SA IBABAW NG LIMBAG NA PANGALAN
PETSA NG LAGDAAN: __________

____
LAGDA NG ***BRANCH MANAGER***
SA IBABAW NG LIMBAG NA PANGALAN
PETSA NG LAGDAAN: __________

Appendix 4: Operations Update

CARD Mutual Benefit Association, Inc.
Operations Update

MEMBERSHIP as of April 30, 2004

PARTICULARS	THIS MONTH				YEAR-TO-DATE			
	CARD NGO	CARD BANK	NON-CARD	TOTAL	CARD NGO	CARD BANK	NON-CARD	TOTAL
RECOGNIZED	1,262	141	49	1,452	3,118	396	252	3,766
RESIGNED	2,656	599	13	3,268	9,889	3,243	213	13,345
TRANSFERRED TO CARD/BNM	0	0	4	4	0	0	11	11
NET ACTIVE	**(1,394)**	**(458)**	**32**	**(1,820)**	**72,974**	**30,646**	**3,169**	**106,789**

CLAIMS PAYMENT

TYPE OF CLAIM	THIS MONTH		YEAR-TO-DATE		THIS MONTH					YEAR-TO-DATE				
	NUMBER	AMOUNT (Php)	NUMBER	AMOUNT (Php)	MEMBER	SPOUSE	CHILDREN	PARENTS	TOTAL	MEMBER	SPOUSE	CHILDREN	PARENTS	TOTAL
LIFE INSURANCE														
DEATH	119	612,185.00	479	2,347,451.00	33	48	28	10	**119**	108	194	149	28	**479**
DISABILITY	5	17,703.00	16	55,537.00	3	1	1	0	**5**	11	3	2	0	**16**
TOTAL LIFE CLAIM	**124**	**629,888.00**	**495**	**2,402,988.00**	**36**	**49**	**29**	**10**	**124**	**119**	**197**	**151**	**28**	**495**
REFUND OF CONTRIBUTION														
LIFE INSURANCE	416	153,951.21	1,922	679,778.29	416	0	0	0	416	1,922	0	0	0	1,922
PROVIDENT FUND	425	328,108.85	1,983	1,461,698.41	425	0	0	0	425	1,983	0	0	0	1,983
TOTAL REFUND	**841**	**482,060.06**	**3,905**	**2,141,476.70**	**841**	**0**	**0**	**0**	**841**	**3,905**	**0**	**0**	**0**	**3,905**
RETIREMENT	**2**	**4,667.87**	**4**	**9,855.71**	**2**	**0**	**0**	**0**	**2**	**4**	**0**	**0**	**0**	**4**
LOAN REDEMPTION	**29**	**300,217.84**	**100**	**1,159,145.32**	**29**	**0**	**0**	**0**	**29**	**100**	**0**	**0**	**0**	**100**
TOTAL CLAIMS PAID	**996**	**1,416,833.77**	**4,504**	**5,713,465.73**	**908**	**49**	**29**	**10**	**996**	**4,128**	**197**	**151**	**28**	**4,504**

FUND BALANCE

PARTICULARS	LIFE INSURANCE		PROVIDENT FUND		LOAN REDEMPTION FUND		TOTAL	
	THIS MONTH	YEAR-TO-DATE	THIS MONTH	YEAR-TO-DATE	THIS MONTH	YEAR-TO-DATE	THIS MONTH	YEAR-TO-DATE
GROSS CONTRIBUTION	2,386,690.00	8,627,863.69	2,386,690.00	8,627,863.69	1,231,678.98	3,912,633.94	6,005,058.98	21,168,361.32
LESS: 50% RESERVE	1,193,347.25	4,313,934.10			(317,394.66)	(1,776,619.62)	875,952.59	2,537,314.48
EXPENSES-CLAIMS	783,839.21	3,082,766.29	332,776.72	1,471,554.12	300,217.84	1,159,145.32	1,416,833.77	5,713,465.73
EXPENSES-GAF	332,094.05	1,376,223.14	39,086.79	148,199.56	312,665.64	1,310,889.99	683,846.48	2,835,312.69
ADD: INTEREST & OTHER INCOME	272,732.93	889,857.46	424,960.95	1,378,401.38	304,680.37	922,257.98	1,002,374.25	3,190,516.82
FUND BALANCE	**350,142.42**	**744,797.62**	**2,439,787.44**	**8,386,511.39**	**1,240,870.53**	**4,141,476.23**	**4,030,800.39**	**13,272,785.24**

SAVINGS FROM GAF

PARTICULARS	THIS MONTH	YEAR-TO-DATE	CUMULATIVE (2000-2004)
PROVISION FOR GAF	771,407.60	2,680,656.80	23,408,388.36
LESS: ACTUAL EXPENSES	683,846.48	2,835,312.69	17,046,440.13
SAVINGS FROM GAF	**87,561.12**	**(154,655.89)**	**6,361,948.23**

Note: Cawayan Branch no report submitted as of May 13, 2004

Prepared by: **MAY S. DAWAT** **Checked by:** **ALEX M. DIMACULANGAN** **Approved by:** **DORIS C. PERALTA**