

ASSA RECOGNITION AWARD 2017

PROJECT PROPONENT:

Pag-IBIG Fund (Home Development Mutual Fund) - Philippines

CATEGORY:

Insurance Coverage Recognition Award

1. NAME OF THE PROJECT:

Improved Terms on Pag-IBIG Fund's Insurance Coverage for Housing Loan Borrowers

2. OBJECTIVES OF THE PROJECT:

The project has the following objectives:

- a. To promote good governance and transparency
- b. To subject the life insurance coverage of its housing loan borrowers to an open, competitive and public bidding
- c. To obtain for its borrowers better insurance coverage with the most benefits at the least cost
- d. To keep Pag-IBIG Fund's life insurance business in the hands of legitimate insurance companies that are transparent with their operations

3. NATURE OF THE PROJECT:

Pag-IBIG members who avail of a loan through any of the Fund's home lending programs are required to be covered by a Mortgage Redemption Insurance (MRI) / Sales Redemption Insurance (SRI) to protect the Fund's financial exposure as well as to provide financial support for the member-borrower's legal heirs in case of the former's death.

For three decades, Pag-IBIG Fund's housing life insurance portfolio was exclusively managed by a Yearly Renewable Term (YRT) Insurance Pool. The Fund inherited the arrangement from the National Home Mortgage Finance Corporation (NHMFC) when it turned over a portfolio of mortgages to Pag-IBIG in 1985 as payment of its obligations.

As part of good governance, considering that the arrangement with the YRT Insurance Pool was entered through a negotiated contract, Pag-IBIG resolved to terminate the arrangement and instead engage the services of a capable and reputable insurance brokerage by way of competitive public bidding. With public bidding, the Fund would also be able to secure for its members the best possible advantages to be gained from open competition.

Pag-IBIG was able to successfully conduct the bidding in 2014, which was closely coordinated with the Department of Finance, Insurance Commission, and the Governance Commission for GOCCs.

Under the new arrangement, the premium rate has been reduced by almost half from PhP0.41 per PhP1,000 of insurance benefit to PhP0.23 per PhP1,000. For the first time, Pag-IBIG member-borrowers will receive burial benefit up to PhP22,000, full payment of loan in case of total permanent disability, amortization support of up to PhP500,000 in case of terminal illness, and 20% of the insurers' profit by way of experience refund. The additional PhP2 per PhP1,000 OFW premium and additional medically sub-standard premium have also been scrapped. Processing time for claims is now reduced to 24 hours from the previous 30 days.

4. WHY IT SHOULD BE RECOGNIZED:

In line with Pag-IBIG Fund's commitment to promote good governance and transparency, the agency bid out the contract for insurance coverage for housing loan borrowers which were previously monopolized by two insurance pools that controlled the life and non-life insurance of Pag-IBIG Fund's housing loan borrowers since 1985, or for almost 30 years. No less than the Governance Commission for GOCCs (GCG), which regulates Pag-IBIG and other state-run companies, and the Department of Finance recommended the conduct of public bidding.

The insurance pools' near 30-year exclusive contract, which did not go through public bidding, was inherited from the National Home Mortgage Finance Corporation (NHMFC), the agency which used to manage Pag-IBIG Fund. The NHMFC administered home loans during the 1980s and 1990s until such responsibility was delegated to Pag-IBIG in 1995.

This is a serious governance concern because the insurance pools transacted with Pag-IBIG Fund with very little transparency. The two insurance pools were represented by separate executive committees which had the power to approve or deny insurance claims but were not incorporated. In the event of a claim denial, the executive committees could not be made answerable because they are legally non-existent. And worse, the insurance pools themselves were not incorporated. In fact, the membership of the insurance pools changed so often that it became very difficult to ascertain which insurance companies were responsible for claims.

Considering that Pag-IBIG Fund's insurance coverage for its home loan borrowers involves premiums worth more than PhP1.5 Billion a year, the agency was also wary of how the premiums were being handled. The insurance pool had a poor track record in approving insurance claims of borrowers. The insurance pools denied more claims than it approved. Historical data on the usage of premiums shows that in the last 11 years (2003 to 2013), the life insurance pool only paid

about PhP0.38 (38 centavos) for every PhP1.00 premium it received. For non-life, the insurance pool only paid about PhP0.08 (8 centavos) for every PhP1.00 premium paid to them in the last eight years (2006 to 2013). This meant that, on average, 70 percent of total premiums paid to the insurance pools went directly to the insurer's profits.

A recent market survey also showed that the insurance pools' premium rates PhP0.41 (41 centavos) per PhP1,000 was too high for the kind of insurance portfolio the Pag-IBIG has. This rate was never reduced by the insurance pool despite the enormous growth of Pag-IBIG's housing portfolio since the 1980s.

The benefits derived by Pag-IBIG members from the public bidding of the insurance coverage are direct and immediate. Not only did the selection process of a new insurance provider track the strict requirement of the Republic Act No. 9184 (the Government Procurement Reform Act), but the Fund also managed to negotiate far better terms with Lockton Philippines Insurance and Reinsurance Brokers, the new insurance provider.

With the new insurance provider in place, premiums were cut by half from PhP0.41 per PhP1,000 to only PhP0.23 per PhP1,000. The new contract also provides burial benefit worth PhP22,000 in case of the borrower's death, amortization support of up to PhP500,000 in case of terminal illness, and experience refund wherein 20 percent of the insurer's profits are refunded to the insured borrower. Processing time for claims have also been reduced to as fast as 24 hours from the previous 30 days.

The table below provides a summary of the superior benefits under the new terms compared to the terms previously provided by the yearly renewable term (YRT) insurance pool.

Table 1: Comparison of terms previously provided by the YRT insurance pool versus Lockton Philippines Insurance and Reinsurance Brokers.

Features	Before (YRT Insurance Pool)	Now (Lockton Philippines Insurance and Reinsurance Brokers, Inc.)
Premium Rates	41¢ per P1,000	23¢ per P1,000
Burial Benefit	None	Up to PhP22,000
Effect of Total Permanent Disability	None	Full payment of loan
Effect of terminal illness	None	Amortization support up to PhP500,000

Experience Refund	None	20% of the insurer's profit to be refunded to the insured
OFW Premium	Additional PhP2 per PhP1,000	None
Medically Sub-standard Premium	With additional premium	None
Claims Processing	30 days	As fast a 24 hours

An equally important benefit was the massive savings the new contract generated for the insured borrowers. With the premium reduced to only PhP0.23 per PhP1,000 from the previous PhP0.41 per PhP1,000, the more than 1.82 million Pag-IBIG home loan borrowers saved a whopping PhP390,169,704.27 in only one year (November 2014 to October 2015), as shown by the table below.

The total savings amounts to PhP459,527,565.81, if we included the remaining months (November and December) of 2015 in the equation. Every quarter, members saved 40 percent on their premiums and other fees which amount to hundreds of millions of Philippine Pesos.

Table 2: Comparison of premiums on Life Insurance (Mortgage Redemption Insurance or MRI) provided by the YRT insurance pool versus Lockton Philippines Insurance and Reinsurance

Period	YRT Insurance Pool*	Lockton Philippines Insurance and Reinsurance Brokers, Inc.	Savings
1st Quarter (Nov. 2014 to Jan. 2015) 460,658 accounts			
Premium	350,006,526.87	178,974,823.50	171,031,703.37
Service/Admin Fee	104,944,790.37	32,420,761.96	72,524,028.41
Net Amount	245,061,736.50	146,554,061.54	98,507,674.96
2nd Quarter (Feb. 2015 to Apr. 2015)			

467,073 accounts			
Premium	355,802,039.43	181,979,162.76	173,822,876.67
Service/Admin Fee	106,685,982.98	32,964,993.65	73,720,989.33
Net Amount	249,116,056.45	149,014,169.11	100,101,887.34
3rd Quarter (May 2015 to July 2015)			
451,952 accounts			
Premium	344,738,448.78	176,342,091.90	168,396,356.88
Service/Admin Fee	103,370,551.93	31,943,860.05	71,426,691.88
Net Amount	241,367,896.85	144,398,231.85	96,969,665.00
4th Quarter (Aug. 2015 to Oct. 2015)			
441,231 accounts			
Premium	336,519,162.33	172,213,266.15	164,305,896.18
Service/Admin Fee	100,911,361.55	31,195,942.34	69,715,419.21
Net Amount	235,607,800.78	141,017,323.81	94,590,476.97
Nov. 2015 to Dec. 2015			
482,802 accounts			
Premium	251,297,814.42	130,151,703.76	121,146,110.66
Service/Admin Fee	75,364,477.29	23,576,228.17	51,788,249.12
Net Amount	175,933,337.13	106,575,475.59	69,357,861.54
GRAND TOTAL	PhP1,147,086,827.71	PhP687,559,261.90	PhP459,527,565.81

From November 1, 2016 to May 31, 2017, United Coconut Planters Life Assurance Corporation (COCOLIFE) as the insurer paid a total amount of PhP 326,108,869.83 for 598 claims. Of these, claims proceeds amounted to PhP314,189,298.82 and burial benefit amounted to PhP11,919,571.01.

The project, **Improved Terms on Pag-IBIG Fund's Insurance Coverage for Housing Loan Borrowers**, deserves to be recognized by the ASEAN Social Security Association because it is an activity that expanded the insurance coverage of Pag-IBIG Fund's housing loan borrowers. In the last seven years, Pag-IBIG Fund has been reforming its programs both for greater sustainability and to improve members' benefits. But the disbanding in 2014 of the insurance pool which monopolized the insurance coverage of all Pag-IBIG home loan borrowers since 1985 is one of the most, if not the most, courageous and decisive reform it has ever implemented in the name of good governance.