

EXECUTIVE BRIEFING MANUSCRIPT

(July 1, 2019)

by: **Mario A Avenido, President and CEO**

Our Chairman Dir Oscar Albayalde; our Vice Chairman Dir Archie Gamboa; officers; members of the Board; good morning.

On behalf of the Management, may I present the Executive Briefing to apprise new members of the Board about our company, the reason and purpose of its existence, its products and services, the organization, and its operation.

SLIDE [PSMBFI CREATION]

The existence of PSMBFI stemmed from a noble intention of the PNP leadership to bridge a gap when PNP personnel were excluded from the GSIS coverage in 1997. It paved the way for the creation of PSMBFI with the primary purpose of providing insurance coverage to the men and women of the Philippine National Police.

SLIDE [PSMBFI CREATION]

PSMBFI was registered with the Securities and Exchange Commission in December 11, 1997 and subsequently granted license to operate by the Insurance Commission on February 4, 1998.

SLIDE [VISION AND MISSION]

Our Vision states that "By 2020, PSMBFI shall be a progressive and stable mutual benefit association extending benefits and services that are highly responsive to the needs of members".

(MISSION)

Anchored on this vision, PSMBFI is committed to provide timely financial and material aid and comfort to public safety practitioners and their families;

To embark on projects that will improve mutual assistance and foster camaraderie among members; and,

To enhance the work environment that will further develop competent, committed, trustworthy, and service-oriented personnel.

SLIDE [REVIEW OF VISION AND MISSION]

Our vision statement was crafted in 2012 alongside the PSMBFI Strategy Road which was facilitated by the Institute of Corporate Directors or the ICD.

It is barely a year before 2020 and it is just fitting to revisit our vision and mission statements to determine if we are moving in the right direction. This is also to update our statements in accordance with the industry standard. It will be jived with the review and amendment of our development plan since we also intend to incorporate Enterprise Risk Management in our development plan.

SLIDE [PARTNER AGENCIES OF PSMBFI]

With PNP as its institutional partner, PSMBFI eventually expanded its membership base by opening its doors to other public safety agencies that were also excluded from the social insurance of the government.

We have 12 other partner agencies, namely:

- The National Police Commission
- The Philippine National Police Academy;
- The Bureau of Fire Protection;
- The Office for Transportation Security;
- The Philippine Coast Guard in 2014.
- The National Mapping and Resource Information Authority
- The Metropolitan Manila Development Authority.
- The Philippine Public Safety College
- The Department of Environment and Natural Resources
- The Bureau of Immigration.
- The Land Transportation Office.
- The Bureau of Corrections.

SLIDE [MBA VS SLA]

As mutual benefit association, the operation of PSMBFI is different from other financial institutions such as savings and loan associations which are regulated by the Bangko Sentral ng Pilipinas since they accept deposits and grant loans.

For PSMBFI, its core business is insurance which is regulated by the Insurance Commission. Although it also grants loans, these are allowable investments in accordance with the Insurance Code.

SLIDE [INSURANCE PRODUCTS]

PSMBFI offers several insurance plans.

The Special Group Term Insurance or the SGTI is a mandatory insurance of the PNP.

As mutual benefit association, PSMBFI has to have an Equity Plan where one can enroll and become a member.

Through membership in the Equity Plan, a member can enroll in other optional plans such as the Basic Group Term Plan, the Memorial Plan, Endowment at Age 56, and the Credit Life Insurance Plan.

SLIDE [SGTI]

The SGTI is an insurance coverage required by Presidential Decree No. 1965 with **P12.00** as insurance premium.

The member pays **50%** of the premium while the other half is paid for by the PNP as a counterpart premium.

The insurance coverage is **P15,000** with **P2,000** burial assistance. Additional **P25,000** is provided to beneficiaries in case of accidental death or killed in action.

SLIDE [EQUITY PLAN]

As mentioned earlier, membership in PSMBFI is through enrollment in the Equity Plan, a basic life insurance plan. PSMBFI administers 2 basic plans—the Mutual Benefit Equity Plan or the MBEP and the Members' Equity Plan or the MEP.

From 1998 to 2013, MBEP was offered as the basic life insurance plan. Due to the sustainability issue of this plan, PSMBFI came up with the MEP with enhanced benefits which was offered beginning January 2014.

SLIDE [EQUITY PLAN CONTRIBUTION]

Our Equity Plan is open to all public safety practitioners.

A member contributes **3%** of the base pay for the uniformed personnel while a minimum of **P50** up to **P1,000** for the non-uniformed personnel.

Members' contributions are collected through automatic salary deductions. Membership can be continued after retirement up to age 65.

SLIDE [INSURANCE BENEFITS]

Shown on the screen are benefits of our Equity Plan. We have life insurance, WIA benefit, KIA benefit, accidental death and disablement benefit, accident hospitalization benefit, and dependent's free insurance. The plan also has a savings component called equity value and members have the privilege to borrow loan.

SLIDE [BASIC LIFE INSURANCE]

Life insurance coverage depends on the contribution which is equated to the rank.

For a Patrolman, the insurance coverage is **P438,752.11** for a contribution of **P890.04**.

Under a regular insurance plan, the coverage commences upon payment of the first contribution. At PSMBFI, a special privilege is extended to PNPA cadets and recruits of the PNP, PCG and BFP wherein they are automatically covered by insurance and become members of PSMBFI upon signing of the MAF.

Recently, we processed the insurance benefits of the three (3) Patrolmen from **PRO10** who have just signed the MAF. They died due to vehicular accident, two months after they took oath as members of the Philippine National Police.

(PAUSE)

SLIDE [ACCIDENTAL DEATH BENEFIT]

In case of accidental death, the insurance coverage is doubled for a total of **P877,504.22** for a Patrolman.

SLIDE [KILLED-IN-ACTION BENEFIT]

For those who are killed during police operations, additional **100%** of the basic life insurance coverage is provided at no additional cost.

This is **KIA benefit** and the amount depends also on the member's rank. For a patrolman, the KIA benefit is **P877,504.22**.

SLIDE [INSURANCE COVERAGE]

Shown on the screen is the insurance coverage for natural and accidental deaths including death due to legitimate police operation or Killed-in-Action. The coverage increases as rank goes up.

SLIDE [WOUNDED-IN-ACTION BENEFIT]

For those who are wounded during legitimate police operations, the amount of **P20,000** or **P50,000** is provided to members who sustained minor or major injuries, respectively. This is **WIA benefit** which is also provided at no additional cost.

SLIDE [ACCIDENTAL DISABLEMENT BENEFIT]

The Equity Plan also covers **accidental disablement** and the amount of benefit follows a certain schedule based on the percentage of loss as shown on the screen.

SLIDE [ACCIDENT HOSPITALIZATION BENEFIT]

Another benefit that is provided at no additional cost is the **Accident Hospitalization Benefit**.

Qualified members who are hospitalized due to accident will receive P1,000 per day of confinement for a maximum of **10 compensable days**.

SLIDE [FREE INSURANCE OF DEPENDENT]

Another flagship benefit of PSMBFI is the free insurance coverage of one (1) dependent amounting to **P50,000**. We have extended the benefit to the beneficiaries which is our way of helping our members cope up with funeral expenses in case of death of their loved ones.

SLIDE [CLAIMS ON FREE INSURANCE OF DEPENDENT]

As of May 2019, we have processed 8 claims on Free Insurance of Dependent. Each member received **P50,000** for the death of their beneficiary, like wife, husband, or parents.

SLIDE [EQUITY VALUE]

Also mentioned earlier, the Equity Plan has savings component in the form of an **Equity Value**. This is part of a member's contribution that is set aside and earns interest.

The equity value grows as monthly contribution increases with the movement in rank and salary. Equity Value is refunded upon termination of membership.

SLIDE [ACCESS TO LOAN FACILITIES]

Members can also avail of several **loan facilities** such as loans on the equity and E-56 policy including salary loan and its variants. These loan facilities have flexible payment terms with affordable interest rates.

SLIDE [CREDIT LIFE INSURANCE]

Among these loan facilities, salary loan and its variants are covered by Credit Life Insurance or CLI to protect both the company and the member-borrowers as well. CLI extinguishes the outstanding loan balance in case of death of the member-borrower during the loan term.

Policy Loan, on the other hand, is secured by the Equity Value or Cash Surrender Value for E-56.

SLIDE [EARNINGS ARE SHARED TO MEMBERS]

In case of good business operations, profits are shared to the members in the form of Members' Experience Refund or the **MER**. This is declared based on the net income of the preceding year out of the mortality savings and income from investments.

The interest component of the Equity Value of MBEP is also paid out in the form of Members' Benefit from Interest of the Equity Value or the **MBIEV**.

SLIDE [BASIC GROUP TERM PLAN]

Another insurance plan of PSMBFI is the Basic Group Term Plan or the BGTP. This is an optional plan which provides for additional life insurance coverage with accidental death and disablement benefits. The BGTP is for the uniformed personnel only.

SLIDE [MEMORIAL PLAN]

Another optional plan is the Memorial Plan which provides for death benefit only. Contribution is either **P32** pesos or **P16** pesos for an insurance coverage of **P42,000** and **P21,000**, respectively.

SLIDE [E-56]

We also have the Endowment at Age 56 or E-56. This is a permanent plan which is a combination of life insurance and investment. A policyholder is covered by the **Sum Assured** immediately upon payment of the first monthly contribution.

It is also an investment since the Sum Assured or the amount that will be provided at age 56 is more than the total premiums paid especially if the policyholder enrolls at a younger age.

Premiums are payable up to age 56. The minimum amount is **P350** while the maximum depends on the amount that could buy the maximum sum assured of **P3 million pesos**.

SLIDE [E-56 BENEFITS]

On the 56th birthday of the policyholder, he or she will receive the sum assured either in lump sum or in 36 monthly installments. The staggered payment is intended to bridge the gap while waiting for the regular pension of the member.

Aside from life insurance coverage, E-56 also covers accidental death. In case of disability due to sickness or accident, payment of premium is waived as long as the policyholder is incapable of engaging in income-generating activities.

Policyholders could also avail of a loan against the Cash Surrender Value of the E-56 policy.

(PAUSE)

[ORGANIZATIONAL STRUCTURE]

Let me now present the organizational structure of PSMBFI.

SLIDE [BOT STRUCTURE]

PSMBFI is a private organization led by fifteen (15) members of the Board of Trustees who are elected during the Annual General Membership Meeting and Elections.

The Board is the policy-making body of the Association while the Management implements the policies, plans and projects set by the Board. It is headed by the incumbent Chief, PNP who acts as Chairman of the Board. Board Committees are also created to focus on specific aspects of business operations.

SLIDE [BOARD COMMITTEES]

Flashed on the screen are functions of these committees.

SLIDE [PROJECT MANAGEMENT GROUP]

In June 2017, the Project Management Group was created to oversee major projects such as construction of PSMBFI regional offices and the development of a new IT Insurance System. Its functions are shown on the screen as well as the composition of the group.

(PAUSE)

SLIDE [MANAGEMENT STRUCTURE]

For the Management Structure, there is an amendment in the organization by delayering the Office of the Vice President to attain faster flow of communication between layers, pinpoint accountability, and attain efficiency. Some offices will also be activated and some functions will be recalibrated. Details of the amended organizational structure will be presented later.

SLIDE [USAGE OF COMPANY FUNDS]

Funds of PSMBFI are disaggregated into three (3) fund sources, namely: Equity Fund, Benefit Fund, and General Fund.

- From the contribution, **50%** goes to the Equity Fund for the Equity Value of the member. The fund is invested to provide the interest commitment on the Equity Value;

- **35%** goes to the benefit fund which answers for all insurance claims and other benefits; and,
- **15%** goes to the General Fund to support our operational requirements.

SLIDE [USAGE OF COMPANY FUNDS]

We also allocate funds for our Corporate Social Responsibility Program and for projects with long term benefits. These are funded by the Retained Surplus based on the net income of the preceding year.

For the CSR program, the maximum allocation is **3%** while **20%** for projects with long term benefits such as, but not limited to, land acquisition, building construction, IT projects, and product development.

SLIDE [2019 APPROVED BUDGET]

For 2019, our approved budget is **P418.34 million** for personal services and maintenance and operating expenses.

SLIDE [CSR PROGRAM OF PSMBFI]

For our CSR Program, we have allocated **P54.01 million** for 2019 which is equivalent to **3%** of the 2018 net income.

Our CSR program is in the form of financial assistance to the members who are sick or victims of calamity and support to partner agencies in the form of procurement of equipment or services and construction or major repairs.

(PAUSE)

[OVERVIEW OF OPERATIONS]

Let me now present the overview of our operations.

SLIDE [MEMBERSHIP]

As of May 31, 2019, membership in the Equity Plan reached **183,383** and this is equivalent to **5%** year-on-year increase. PNP membership stood at **93.02%**.

For other optional plans, enrollment is shown on the screen.

(PAUSE)

SLIDE [MEMBERSHIP BY AGENCY]

Also shown on the screen is the membership by agency. Among the public safety agencies, PNP remains the major partner of PSMBFI accounting for **95%** of total membership while **5%** constitute other partner agencies.

SLIDE [TOTAL BENEFIT CLAIMS PAID]

For insurance claims, PSMBFI has already paid a total of **P136.28 million** worth of insurance benefits as of May 2019. This amount covers all types of claims from the different insurance plans.

SLIDE [24-HOUR RULE]

In the processing of insurance claims, we strictly implement the **24-hour rule** in releasing the cash advance or the partial payment of insurance benefit. We see to it that the cash advance check is released within 24 hours upon receipt of information of the member's death in order to alleviate the burden of beneficiaries on funeral expenses.

The amount of cash advance is either **P121 thousand** or **P142 thousand** depending on the Memorial Plan of the member.

(FINANCIAL HIGHLIGHTS)

SLIDE [NET INCOME]

For our financial performance, our net income was recorded at **P653.34 million** as of May 2019. Notably, this amount is lower by **P20.42 million** which is the net effect of increases in the provision for doubtful accounts, increment on members' equity and personal services.

SLIDE [ASSETS]

In terms of assets, we ended the month of May 2019 with **P17.30 billion** in assets and this is **6.5%** increase from the 2018 figure of **P16.24 billion**. For a span of **5 months**, assets increased by **P1.05 billion**.

Liabilities, on the other hand, was recorded at **P6.54 billion** as of May 2019. A **6.5%** increase was also noted from the 2018 figure of **P6.14 billion**.

SLIDE [RETAINED SURPLUS]

For our Retained Surplus, we ended the five-month period with **P10.8 billion**.

(PAUSE)

SLIDE [PLANS AND PROJECTS]

Let me also apprise the new members of the Board for our major plans and projects.

(REDUCTION OF CONTRIBUTION)

First, we will reduce our contribution rate, either 1.5% flat rate or graduated contribution to make it more affordable to the members.

In compliance to the requirement of the Board, we are finalizing the financial projections to determine its impact especially on the capability of the company to support its operational requirements. We will present the results during the July 2019 meeting.

(REDUCTION OF INTEREST RATE)

Alongside the lowering of contribution rate, we also intend to reduce the interest of salary loan in order to be competitive in the market. This will form part of the financial projection that will be presented next month.

(DECLARE & DISTRIBUTE MER/MBIEV)

Then we will declare and distribute the Members' Experience Refund as well as the Members' Benefit from Interest of the Equity Value. We are currently finalizing the requirements which will be endorsed to the Board for approval.

SLIDE [PLANS AND PROJECTS]

For our major projects, we have 2—the land banking project and our IT Roadmap.

Land banking project was conceptualized in response to a directive disallowing non-government entities from holding office inside PNP camps. For this reason, we will acquire lots to construct regional offices in order to ensure the continuity of our services to the members.

Last May 2019, PSMBFI has acquired the first property in Mindoro in the total amount of **P2.875 million** for a **500 square meter lot**.

Another prospect is in Butuan City. A team from the head office has already visited the site and checked the documentary requirements.

For the IT Roadmap, the primary purpose is to acquire a new IT Insurance System. The Terms of Reference or the TOR was already approved. It was already endorsed to the Bids and Awards Committee for pre-bidding.

(PAUSE)

With this last slide, may I end my briefing. Thank you.