A loan payment protection fund (Fondo de Protección de Desgravamen): An actuarial model to benefit teachers in the Peruvian education system

A case of the Derrama Magisterial

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Summary

The Derrama Magisterial (DM) has begun offering a number of services in accordance with the terms of its Statutes, and one noteworthy scheme involves providing credit to member teachers at a preferential rate of interest. Such credit, along with other types of investment, helps support the organization, and contributes above all to providing pension-related benefits to member teachers and their dependents.

Outstanding credit must be deducted from pension payments, which in many cases used to be detrimental to dependents, who received a lower amount than originally estimated on the basis of the accumulated member account.

In light of this, it was decided that a mechanism should be established to help cover the risk of death and disability for member teachers who are up to date with their credit repayments. The mechanism came into being in the form of a Payment Protection Insurance Fund which enabled family members to be protected in the case of the death or total disability of the credit holder.

The issue or challenge

What was the issue or challenge addressed by your good practice? Please provide a short description.

The proposal to create the Payment Protection Insurance Fund was based on the following:

- The Statutes, which include the objective of “upholding teacher solidarity and social well-being”
- The Strategic Plan, which promotes the following:
  - Vision: “Supporting members in their family life”
  - Mission: “Ensuring secure and decent benefits”

To this end, the plan was to establish a solidarity-based protection mechanism for teachers granted credit by the Institution.

The main strategies and tasks to put in place were:

- To ensure that experts in actuarial science were available
- To review and analyze the experiences of other organizations in including payment insurance in credit repayments (financial institutions)
- To set up the Payment Protection Insurance Fund (Fondo Protección Desgravamen) with an initial contribution that enabled it to begin functioning
- To draft the regulations or standards setting out responsibilities
- To make the necessary changes to IT and accounting systems
- To train staff in light of these changes

Addressing the challenge

What were the main objectives of the plan or strategy to resolve the issue or challenge? List and briefly describe the main elements of the plan or
strategy, focusing especially on their innovative feature(s) and expected or intended effects.

The proposal to create the Payment Protection Insurance Fund was based on the Institution’s Statutes, Strategic Plan, Vision and Mission as described in the previous section.

To meet the terms of these, the main aim was to establish a solidarity-based protection mechanism for teachers granted credit by the Institution.

The main strategies and tasks were:

- To ensure that actuarial experts were available.
- To review and analyze the experiences of other organizations in including payment insurance in credit repayments (for example, financial institutions).
- To draft the regulations or standards setting out responsibilities.
- To make the necessary changes to IT and accounting systems.
- To train staff in the changes made.

One important step was to set a fixed protection payment for the Fund, which had to be included as an additional component in credit repayments. The percentage used to calculate the fixed protection payment for the Fund was significantly lower than those charged by financial institutions, which offer credit on similar terms, and led to only a negligible increase in the overall cost of credit.

The calculations and figures are based on a document entitled “Nota Técnica para la Evaluación de la Tasa para la Cobertura de Desgravamen” (Technical Note on Rate Assessment for Payment Protection Coverage) (2014), which was drafted by an actuarial expert.

**Targets to be achieved**

What were the quantitative and/or qualitative targets or key performance indicators that were set for the plan or strategy? Please describe briefly.

The main indicators set were:

- Number of beneficiaries per type of risk (death or disability): the target was not to exceed 350 beneficiaries per year
- Pending debt to pay (death or disability): the target was not to exceed 2 million Peruvian soles

**Evaluating the results**

Has there been an evaluation of the good practice? Please provide data on the impact and outcomes of the good practice by comparing targets vs actual performance, before-and-after indicators, and/or other types of statistics or measurements.

The number of beneficiaries per type of risk (death or disability) has been on the increase, with 40 beneficiaries in 2013, 157 in 2014, 216 in 2015 and 311 in 2016.
Meanwhile, the pending debt to pay (death or disability) per beneficiary was as follows: PEN 8,023 in 2013, PEN 6,793 in 2014, PEN 6,941 in 2015 and PEN 7,581 in 2016.

**Lessons learned**

*Based on the organization’s experience, name up to three factors which you consider as indispensable to replicate this good practice. Name up to three risks that arose/could arise in implementing this good practice. Please explain these factors and/or risks briefly.*

The main factors contributing to the success of this initiative were:

- Support from specialists in actuarial science who helped us take into account our own needs.
- Important information about members obtained from data on transactions and operations carried out: number, age, value of individual account, etc., bearing in mind the corresponding mortality table.
- Favourable reaction from the Superintendency for Banking and Insurance (*Superintendencia de Banca y Seguros*), the competent regulatory body, on analyzing the proposal.

Some of the main risks were:

- Unexpected changes to parameters.
- Changes in standards or regulations.
- Increase in the number of similar cases, which would quickly exhaust the Payment Protection Insurance Fund’s resources.