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Circular Letter

To : All Life Insurance Companies

Subject : Guidelines on Sales Illustrations of Life Insurance Proposals

In view of the differing sales illustrations interest rates in the market being used by life insurance companies on various life products there is a need to come up with a standard basis of these illustrations.

Attached is the ***Guidelines on Sales Illustrations of Life Insurance Proposals*** to be used for traditional and variable life products to provide the life insurance industry a standard format of illustrating projected values for purposes of making sales presentations.

This Circular shall take effect immediately.


BENJAMIN S. SANTOS
Insurance Commissioner



GUIDELINES
ON
SALES ILLUSTRATIONS
OF
LIFE INSURANCE PROPOSALS

1. Rationale

Possible legal issues evolve around the expectation of the policyholder towards the benefits provided by the policy they bought, i.e. policyholders' reasonable expectations (PRE).

Thus, customers must be given information they need about the product and its benefits so that they can make informed decisions about whether or not to buy. This is especially true of non-guaranteed benefits such as dividends, and earnings of premium deposit funds (PDF) and variable life funds.

Insurance companies have the responsibility to ensure that information is presented and help customers understand this information.

2. Definitions

- a. Accumulation Rate – Accumulation rate in the policy proposal shall refer to the interest rates at which the earned policy dividends and premium deposit funds shall be accrued.
- b. Current Interest Rate – average earnings for the past 36 months and calculated every quarter. Current Interest Rate is also known as Mid Assumption in the Proposal.
- c. Dividend – Dividend shall refer to the portion of the premium refunded to the policyowner (usually annual) if the company has operated with a sufficiently favorable mortality, lapse, interest and expense experience. Most companies have their dividends as a fixed value per thousand of sum insured. For some companies, however, dividend rate is the percentage (of cash value) for which dividend is based on.

3. Format of Illustration of Benefits

All sales illustrations shall have an ***Illustration of Benefits*** following the formats for Traditional and for Variable Life Plans prescribed by the Commission. (refer to Appendix 1-4)

4. Illustrating the Benefits of Traditional Plans

a. Death Benefit

The Death Benefit shall be equivalent to the Sum Insured, and accumulated dividends, PDF balances and other applicable values. [Note: Cash values for most companies are not paid as death benefit.]

b. Withdrawal Values

The withdrawal value of a traditional plan shall be equivalent to the value that had been accumulated depending on the period of time that the plan had been in force, as presented in the Table of Values. Withdrawal values include cash surrender values, PDF balances and accumulated dividends.

c. Date of the illustration

Every sales illustration shall indicate the date that it was prepared.

d. Underlying Assumptions Used for the Benefit Projection

Illustration of projected dividend rates and earnings of Premium Deposit Funds (PDF) shall be based on 3 assumptions:

Peso Plans

For Peso plans, the following interest assumptions shall be used

- 1) Low Assumption: 4%
- 2) Mid Assumption: Current interest rate for those companies/products with three years historical experience. For new companies/products, pricing assumptions shall be used. In no case shall a current interest rate be allowed in the illustration if it exceeds the High Assumption rate.
- 3) High Assumption: 12%

Dollar Plans

For US Dollar plans, the following interest assumptions shall be used

- 1) Low Assumption: 3%
- 2) Mid Assumption: Current interest rate for those companies/products with three years historical experience. For new companies/products, pricing assumptions shall be used. In no case shall a current interest rate be allowed in the illustration if it exceeds the High Assumption rate.
- 3) High Assumption: 9%

e. Language

All sales materials used by any agent of an insurer to market the traditional life insurance contract must be approved by the insurer and shall not include any statement, promise, or forecast which the insurer knows to contain any concealment of material facts. It shall not be written in a language, which may confuse or mislead an applicant due to his or her lack of experience or knowledge.

f. Alterations to the illustration document

The Commission shall be notified on a yearly basis of any change in the illustration, particularly on the dividend rates, interest assumptions, and the like. This notification shall coincide with the submission of the insurance company's

Annual Statement to the Commission. A sample illustration should be submitted with all new products, and the Commission should be informed of any alteration to the original illustration submitted.

g. Company customization of illustration document

Subject to the approval of the Commission, the insurance company may customize the document to include additional information provided that such additional information is not misleading and does not otherwise detract from the information disclosed according to guidelines set by the Commission.

5. Illustrating the Benefits of a Variable Life Plan

a. Death Benefit

The minimum death benefit of a variable life insurance contract shall be as follows:

- 1) In the case of a single premium variable life insurance contract,
 1. 125% of the initial single premium paid; plus
 2. 125% of each subsequent top-up premium; minus
 3. 125% of each partial withdrawal.

- 2) In the case of an annual premium variable life insurance contract,
 1. 500% of the current annual premium paid; plus
 2. 125% of each subsequent top-up premium; minus
 3. 125% of each partial withdrawal; and
 4. Minimum death benefit should not be affected by a premium holiday.

Death benefit can be expanded, to include PDF balances and cash values.

b. Withdrawal Values

The withdrawal value of a variable life insurance contract must not be less than the value of units that have been allocated in the separate account(s), less any charges for insurance, administration, and surrender, if applicable.

c. Date of the illustration

Every sales illustration shall indicate the date that it was prepared.

d. Explanatory/warning statement to be disclosed in the illustration document

An insurer delivering or issuing for delivery in the Philippines a variable life insurance contract shall disclose to applicants adequate and accurate information required by this section.

All sales materials, which shall form part of the policy contract, shall contain at least the following information:

- 1) A summary explanation, in non-technical terms, of the principal features of the policy, including a description of the manner in which the variable benefits will reflect the investment experience of the separate account(s) and the factors that affect the variation. This information shall include the provisions required by Sections 4 ©(1) and 4©(4) of the Commission's *Guidelines on Variable Life Insurance Contracts*.
- 2) A statement of the investment policy of the separate account(s) including;
 - a) A description of the investment objectives intended for the separate account(s) and the principal types of investments intended to be made; and
 - b) Any restrictions or limitations on the manner in which the operations of the separate account(s) are intended to be conducted;
- 3) A prominent statement that the investment risks under the policy are to be borne solely by the policyholders;
- 4) A statement of the initial charge, management fees, mortality charge and any other charges to be borne by the policyholders;

e. Underlying assumptions used for the benefit projection

Additional information to be included in the sales materials for a variable life insurance contract shall be as follows:

- 1) A description of the basis for computing all policy benefits;
- 2) A summary of the method to be used in valuing assets held by the separate account(s);
- 3) All guarantees to policyholders, including the guaranteed minimum death benefit, maximum mortality cost and expense charge, minimum rate of interest, minimum withdrawal value, surrender penalty and guaranteed maturity benefit, where applicable;
- 4) Illustrations of benefits payable under the variable life insurance contract based on assumed investment return rates, using three (3) assumptions.

Peso Plans

For Peso plans, the following interest assumptions shall be used

- a) Low Assumption: 4%
- b) Mid Assumption: Current interest rate for those companies/products with three years historical experience. For new companies/products, pricing assumptions shall be used. In no case shall a current interest rate be allowed in the illustration if it exceeds the High Assumption rate.
- c) High Assumption: 12%

Dollar Plans

For US Dollar plans, the following interest assumptions shall be used

- a) Low Assumption: 3%
- b) Mid Assumption: Current interest rate for those companies/products with three years historical experience. For new companies/products, pricing assumptions shall be used. In no case shall a current interest rate be allowed in the illustration if it exceeds the High Assumption rate.
- c) High Assumption: 9%

These rates are the investment returns after final tax. The values illustrated shall be rounded to the lower hundredth. Assumptions upon which illustrations are based and the method of calculation shall be clearly specified.

The Commission may from time to time change the assumed investment return rates to reflect market conditions.

- 5) Where the policy has the flexibility of distributing premiums among several separate account(s), illustrations of benefits payable shall be based on the distribution proportion so elected by the policyholder.
- 6) A statement of the investment performance of the separate account(s) for each of the last ten (10) years or much lesser period as the separate account(s) has been in existence duly certified by responsible officer with a rank of at least Vice-president;
- 7) A prominent statement indicating that the value of the policy may increase or decrease in accordance with the experience of the separate account(s), the results shown are for illustrations only, that the performance of the separate account(s) is not guaranteed and that the value of the policy could be less than the capital invested subject to any specified minimum guarantees. The statement must be of at least equal prominence to the illustrations that it relates to; and
- 8) Any other information that the Commission may from time to time deem necessary.

f. Language

All sales materials used by any agent of an insurer to market the variable life insurance contract must be approved by the insurer and shall not include any statement, promise, or forecast which the insurer knows to contain any concealment of material facts. It shall not be written in a language, which may confuse or mislead an applicant due to his or her lack of experience or knowledge.

g. Alterations to the illustration document

The Commission shall be notified on a yearly basis of any change in the illustration, particularly on the dividend rates, interest assumptions, and the like. This notification shall coincide with the submission of the insurance company's Annual Statement to the Commission. A sample illustration should be submitted with all new products, and the Commission should be informed of any alteration to the original illustration submitted.

h. Company customization of illustration document

Subject to the approval of the Commission, the insurance company may customize the document to include additional information provided that such additional information is not misleading and does not otherwise detract from the information disclosed according to guidelines set by the Commission.

6. Disclaimer

All sales illustrations, whether for participating life insurance plans or variable life insurance contracts, shall include an ***Acknowledgement of Variability*** (refer to Appendix 5-6), based on the format prescribed by the Commission.

APPENDIX 1

Format

of

Illustration of Benefits

Traditional Life Peso Plan

APPENDIX 2

Format

of

Illustration of Benefits

Traditional Life Dollar Plan

APPENDIX 3

Format

of

Illustration of Benefits

Variable Life Peso Plan

Illustration of Benefits – Variable Life Peso Plan

Name : _____ Age: _____ Sex: _____
 Basic Sum Insured : _____
 Death Benefit Option : _____
 Contract Term : _____

End of Policy Year	Total Premium Paid	4% Rate of Return		PROJECTED BENEFITS			
		Living Benefit	Death Benefit	Current ___% Interest Rate	12% Rate of Return	Living Benefit	Death Benefit

The rates of return shown here are for illustration purposes. The actual return may differ. The projected values are net of premium charges of ___% of annual basic premium on the first policy year, ___% on the second year and ___% on the third year, all top ups shall be subject to a premium charge of ___%; an Asset Management Charge of ___% p.a. and Cost of Insurance charges shall be deducted monthly from the investment fund. The figures shown above are net of all charges.

Notes:

1. All payments and benefits shown are in Philippine Pesos.
2. This illustration summary relates to your _____ only, and excludes any riders in this proposal. It assumes that all premiums are paid in full when due and as planned with no premium holiday and the current scale of charges remain unchanged.
3. The Company reserves the right to adjust the basic and rider premium, and any charges in this plan.
4. The above values are illustrations only of the key features of the recommended insurance plans. This is the revised illustration, and may differ from the initial proposed illustration.
5. The projected returns on investments are based on assumed annual rates of 4%, current ___% interest rate and 12%. These rates are for illustration purposes only and do not represent maximum or minimum return on your fund value.
6. **The values above are illustration of possible performance of your fund. Since the fund performance may vary, the values of your units are not guaranteed and will depend on the actual investment performance at that given period. The value of the policy could be less than the capital invested.**
7. **The investment risks under the policy are to be borne solely by you as the policyholder.**

DECLARATION:

I confirm having read and understood the information contained in this summary of illustrated benefits.

This illustration shall form part of the insurance contract once the policy is issued.

Applicant's Name: _____ Signature: _____ Date: _____

APPENDIX 4

Format

of

Illustration of Benefits

Variable Life Dollar Plan

Illustration of Benefits – Variable Life Dollar Plan

Name : _____ Age: _____ Sex: _____
 Basic Sum Insured : _____
 Death Benefit Option : _____
 Contract Term : _____

End of Policy Year	Total Premium Paid	PROJECTED BENEFITS					
		3% Interest Rate		Current ___% Interest Rate		9% Interest Rate	
		Living Benefit	Death Benefit	Living Benefit	Death Benefit	Living Benefit	Death

The rates of return shown here are for illustration purposes. The actual return may differ. The projected values are net of premium charges of ___% of annual basic premium on the first policy year, ___% on the second year and ___% on the third year, all top ups shall be subject to a premium charge of ___%; an Asset Management Charge of ___% p.a. and Cost of Insurance charges shall be deducted monthly from the investment fund. The figures shown above are net of all charges.

Notes:

- All payments and benefits shown are in US Dollars. Payments are acceptable in US Dollars only.
- This illustration summary relates to your _____ only, and excludes any riders in this proposal. It assumes that all premiums are paid in full when due and as planned with no premium holiday and the current scale of charges remain unchanged.
- The Company reserves the right to adjust the basic and rider premium, and any charges in this plan.
- The above values are illustrations only of the key features of the recommended insurance plans. This is the revised illustration, and may differ from the initial proposed illustration.
- The projected returns on investments are based on assumed annual rates of 3%, current ___% interest rate and 9%. These rates are for illustration purposes only and do not represent maximum or minimum return on your fund value.
- The values above are illustration of possible performance of your fund. Since the fund performance may vary, the values of your units are not guaranteed and will depend on the actual investment performance at that given period. The value of the policy could be less than the capital invested.**
- The investment risks under the policy are to be borne solely by you as the policyholder.**

DECLARATION:

I confirm having read and understood the information contained in this summary of illustrated benefits.

This illustration shall form part of the insurance contract once the policy is issued.

Applicant's Name: _____ Signature: _____ Date: _____

PARTICIPATING LIFE INSURANCE PLAN

ACKNOWLEDGEMENT OF VARIABILITY

Applicant : _____
Application No : _____
Agent's Name : _____ Code No : _____ Unit : _____

I acknowledge that:

I have applied with _____ for a _____ policy, and
Company Name *Type of Plan*
have reviewed the illustration(s) that shows how a life insurance policy performs using the company's assumptions based on Insurance Commission's guidelines on interest rates.

I understand that only those values described as guaranteed, if any, are guaranteed. All other policy values can change and may probably be different from those illustrated to me. Actual values may be higher or lower depending on the dividend rates actually earned.

I understand that dividend rates change from year to year and since these are affected by the company's mortality experience, investment returns, expenses, and taxes, and that (*Company*) will advise me of the actual amount of the dividend, if any.

If on any future date I choose to use available policy dividends to pay for my future premiums, I understand that actual dividend performance will determine when or if policy values are sufficient to pay my future premiums.

I understand that the illustration(s) given to me will not become part of any issued policy, as these are provided only to show how policy benefits would change over time under a specific set of assumptions.

Applicant's Signature over Printed Name

Date

APPENDIX 6

Acknowledgement of Variability

Variable Life Insurance Plan

APPENDIX 5

Acknowledgement of Variability

Participating Life Insurance Plan

VARIABLE LIFE INSURANCE PLAN

ACKNOWLEDGEMENT OF VARIABILITY

Applicant : _____
Application No : _____
Agent's Name : _____ Code No : _____ Unit : _____

I acknowledge that:

I have applied with _____ for a Variable Life Insurance Policy,
Company Name
and have reviewed the illustration(s) that shows how a variable life insurance policy performs using
company's assumptions and based on Insurance Commission's guidelines on interest rates.

I understand that since the fund performance may vary, the values of my units are not
guaranteed and will depend on the actual performance at that given period and that the value of my
policy could be less than the capital invested. The unit values of my Variable Life Insurance are
periodically published.

I understand that the investment risks under the policy are to be borne solely by me, as the
policyholder.

Applicant's Signature over Printed Name

Date