

Separate Variable Accounts

Category: Opinion 8 November 2017

Written by Dennis B. Funa



Dennis B. Funa

INSURANCE FORUM

There are, as of the end of 2016, eighteen life insurance companies, out the total 30 life companies, that sell variable life insurance policies. These are: Allianz PNB Life Insurance, Inc.; AsianLife and General Assurance Corporation; AXA Philippines Life Insurance Corp.; BDO Life

Assurance Co., Inc.; BPI Philam Life Insurance Corp.; First Life Financial Co., Inc.; FWD Life Insurance Corp.; Insular Life Insurance Corp.; Manufacturers Life Insurance Co. (Phils.), Inc.; Manulife China Bank Life Assurance Corp.; Philam Equitable Life Assurance Co., Inc.; Philippine American Life and General Insurance Corp.; Philippine Life Financial Assurance Corp.; Pioneer Life Inc.; Prulife Insurance Corp. of U.K.; Sun Life of Canada (Phils.), Inc.; Sunlife Grepa Financial, Inc.; and United Coconut Planters Life Assurance Corp.

When a policyholder procures a variable life insurance, the policyholder contributes to a separate fund set up by the life insurance company called the separate account. Usually, out of the total amount given by the policyholder for the life insurance policy, only 2 to 5% goes to premium payments. The rest of the amount goes to the separate account.

Sections 243, 244 and 245 provide for the regulation of the separate accounts established for variable contracts, and are known as the Separate Variable Accounts. Under Section 243, all amounts received by the company under a variable contract and “which are required by the terms thereof, to be allocated or applied to one or more designated separate variable accounts shall be placed in such designated accounts or accounts.” These separate variable accounts shall at all times “be clearly identifiable and distinguishable from the assets and liabilities in all other accounts of the company.” More importantly, the assets in such accounts “shall not be chargeable with liabilities arising out of any other business the company may conduct but shall be held and applied exclusively for the benefit of the owners or beneficiaries of the variable contracts.” The life insurer merely acts as the fund manager and such funds cannot be commingled with the other funds of the insurer. The insurer does not share in the income earned by the fund from the investments, instead its income is derived by charging management fees. The income from these investments is then distributed to the policyholders upon surrender or redemption of the units of shares.

The insurance company has the duty to see that the value of the separate variable account grows. Thus, the pooled funds are invested in stocks, securities, debt instruments, and other passive investments. And for this reason, it may invest it in accordance with the investment rules laid down in the Amended Insurance Code

(sections 204, 206, 207 and 208) subject to the limitations in said sections and under Section 244. The investment income from these variable accounts (VUL) would include interests on bonds, dividend income, interest on deposits, and interest on loans. The amount of investment income derived from the variable life insurance business has increased by 32.78% in 2015 from Php3.75 billion in 2014 to Php4.97 billion in 2015. The investment income further grew to Php5.78 billion in 2016 which is 16.26% higher than the Php 4.97 billion in 2015.

The total assets in this separate account are collectively called the Separate Account Assets, and they represent the amount of investment fund for the variable life insurance business. The fair value of the fund of each variable life insurance policy is monitored through the designation of outstanding units for each policy which is net of deductions (e.g. cost of insurance, withdrawal charges, etc.). Hence, the fair value of the fund of each unit-linked policy is equal to its total number of outstanding units multiplied by the net assets value per unit (NAVPU). NAVPU is the market value of the fund divided by its total number of outstanding units.

As of 2016, the Separate Account Assets totaled Php476.53 billion, an increase of 15.05% (Php 62.33 billion) from Php 414.2 billion in 2015. Notably, out of the total premium income of Php530.29 billion from 2014 to 2016, Php378 billion or 71.28% came from the variable life business. This is an indication that the variable life insurance business is the main driver of growth for the life insurance industry.

In terms of total policies in-force at the end of 2016, out of the total 4,710,218 policies in-force, 39.58% or 1,864,227 came from the variable life business, while 60.42% or 2,934,940 policies came from the traditional life insurance business. The variable life business grew from a 33.89% market share in 2015 to 39.58% in 2016. In terms of new business generated however, there was a decrease from 2015 to 2016, from 476,711 new business in 2015 to 335,016 new business in 2016.

Dennis B. Funa (dennisfuna@yahoo.com) is the current Insurance Commissioner. He was appointed by President Rodrigo R. Duterte as the new Insurance Commissioner in December 2016.