Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
1071 United Nations Avenue
Manila

Circular Letter No.	2017-34
Date	15 June 2017
Supersedes	2002 Guidelines on variable life contracts
Amends	Circular letter No. 23-2005; 16-2006; 2015-20

CIRCULAR LETTER

TO : **All Life Insurance Companies**

SUBJECT : **Revised Guidelines on Variable Life Insurance Contracts**

WHEREAS, Section 238 of The Insurance Code, as amended by R.A. No. 10607, provides that no insurance company authorized to transact business in the Philippines shall issue, deliver, sell or use any variable contract in the Philippines, unless and until such company shall have satisfied the Commissioner that its financial and general condition and its methods of operations, including the issue and sale of variable contracts, are not and will not be hazardous to the public or to its policy and contract owners;

WHEREAS, Section 437 of the Insurance Code also provides that the Insurance Commissioner shall have the duty to see that all laws relating to insurance, insurance companies and shall, notwithstanding any existing laws to the contrary, have sole and exclusive authority to regulate the issuance and sale of variable contracts and to provide for the licensing of persons selling such contracts, and to issue such reasonable rules and regulations governing the same.

Head Office: P.O. Box 3589 Manila FAX No.522-14-34 Tel. Nos. 523-84-61 to 70 Website: www.insurance.gov.ph

WHEREAS, the Insurance Commission had issued in 2002 to the Philippine Life Insurance Association the Guidelines on Variable Life Insurance Contracts for the guidance of its members. R.A. No. 10607, which was approved in 2012, changed the specific sections of The Insurance Code being referred to by the 2002 Guidelines. The 2002 Guidelines was subsequently amended and supplemented by Circular Letters No. 23-2005, 16-2006 and 2015-20.

WHEREAS, herein Revised Guidelines on Variable Life Insurance Contracts consolidates the unaffected provisions of the 2002 Guidelines on Variable Life Insurance Contracts and incorporates the amendments made by Circular Letters No. 23-2005, 16-2006 and 2015-20 for easy reference and compliance, and contains the updated sections in accordance with the Amended Insurance Code.

NOW, THEREFORE, pursuant to the powers vested to the Insurance Commissioner under Section 437 of the Insurance Code, as amended, the attached Revised Guidelines on Variable Life Insurance Contracts is hereby promulgated for compliance by all life insurance companies transacting variable life insurance business.

DENNIS B. FUNA
Insurance Commissioner

REVISED GUIDELINES
ON
VARIABLE LIFE
INSURANCE CONTRACTS

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Section 1. Definitions

The definitions set forth hereunder shall govern the construction of the following terms used in these Guidelines.

(a) "Commission" refers to the Insurance Commission.

(b) "General Account" means all assets of the insurer other than assets in separate variable account(s) established pursuant to Section 243 of the Insurance Code.

(c) "Incidental Insurance Benefit" means all insurance benefits in a variable life insurance contract, other than the variable death benefit and the minimum death benefit, including but not limited to, accidental death and dismemberment benefits, disability benefits, guaranteed insurability options, family income or term riders.

(d) "Minimum Death Benefit" means the amount of the guaranteed death benefit, other than incidental insurance benefits, payable under a variable life insurance contract regardless of the investment performance of the separate account(s).

(e) "Net Amount at Risk" is defined as any excess of minimum death benefit over the value of the policyholder's separate variable account.

(f) "Net Investment Return" means the rate of investment return in a separate account(s).

(g) "Separate Variable Account" means a separate account(s) established pursuant to Section 243 of the Insurance Code.

(h) "Variable Life Insurance Contract" refers to variable contract as defined in Section 238 (b) of the Insurance Code.

(i) "Unit Pricing" is the process whereby the unit price of units is set. The unit price of units is basically the value of the underlying assets of the separate account(s) divided by the number of units issued.

(j) "Offer Price" or "Selling Price" means the price which the insurer uses to allocate units to a policy when premiums are paid.

(k) "Bid Price" or "Buying Price" is the price which the insurer will give for the units if the policyholder wishes to cash in or claim under the policy.

(l) "Top-Ups" are single premium injections which can be used to buy additional units.

(m) "Premium Holiday" refers to the cessation of premium payments on a variable life insurance contract for a period, with a view to continue it later on.

(n) "Withdrawal Value" is the total amount available to the policyholder in cash upon redemption of all units.

(o) "Partial Withdrawal" refers to the redemption of some units owned by the policyholder.

(p) "Forward Pricing" is a pricing structure wherein the buying and selling prices of units are determined at the next valuation date.

(q) "Allocation of Premiums" means the periodic distribution of premiums to insurance and units.

(r) "Over-The-Counter Market" shall be defined to mean a market which trades all kinds of stocks and bonds which are not listed in the local securities exchanges and where there is no centralized place for trading, there are no listing requirements for issues traded and all registered brokers and dealers are entitled to participate.

(s) "Actively Engaged" shall be taken to mean that the license holder shall have earned, during the year following the issuance of the license, commission or other compensation for services renders as an agent amounting to at least PhP 3,600.

(t) "Variable Contract Agent" shall mean any person who sells or offers for sale variable contracts, as defined in Section 243 (b) of the Insurance Code, or does or performs any act or thing in the sale, negotiation, making or consummating of any such contract other than for himself or herself.

(u) "Insurance Broker" shall mean any person who, for any compensation, commission, or other thing of value acts or aids in any manner in soliciting, negotiating or procuring the making of any insurance contract or in placing risks or taking out insurance on behalf of an insured other than himself or herself.

Section 2. Qualifications of Insurer to Issue Variable Life Insurance Contracts

Any insurer authorized to transact business in the Philippines requesting authority to issue, deliver, sell or use variable life insurance contracts must show to the satisfaction of the Commission that it has satisfied, in addition to the requirements of the Code relative to variable life insurance contracts, the following qualifications:

(a) The insurer, during the fiscal year preceding the date of authorization, shall have maintained surplus accounts in excess of the minimum margin of solvency required of not less than PhP 1,000,000.

(b) The insurer shall initially transfer and allocate to the designated separate variable account(s) in cash or other acceptable investment or a combination of both, an amount equal to at least PhP 1,000,000 from the unassigned surplus of the insurer; and

(c) The insurer shall at all times maintain in the designated separate variable account(s) a surplus which shall be an excess of the value of the admitted assets of such account over its liabilities and reserves of at least two per mille of the total net amount of the risk in force of its variable life insurance contracts as of the preceding year, provided, that the surplus shall in no event be less than PhP 1,000,000; and provided, further, that in the determination of the margin of solvency requirements of the company, the total amount of its insurance in force stated under Section 200 of the Insurance Code shall be deemed to exclude the insurance in force on the variable life insurance contracts.

Section 3. Filing for Approval to do Business

Pursuant to Section 238 of the Insurance Code, the Commission shall require that an insurer, before it delivers or issues for delivery any variable life insurance contract in the Philippines, file with the Insurance Commission a business plan that contains, at least, the following information:

(a) A general description of the variable life insurance contracts it intends to issue;

(b) A general description of the methods of operation of the variable life insurance business of the insurer, including methods of distribution of policies;

(c) With respect to any separate account(s) maintained by an insurer for a variable life insurance contract, a statement of the investment policy the issuer intends to follow for the investment of the assets held in the separate account(s) and a statement of procedures for changing the investment policy. The statement of investment policy shall include a description of the investment objectives intended for the separate account(s);

(d) A description of the basis of allocation of charges and expenses in the separate account(s);

(e) A description of the education and training intended for agents; and

(f) The sources of any actuarial, investment and advisory services contemplated.

Section 4. Insurance Policy Requirements

A. Approval of Variable Life Insurance Contract Form

Every variable life insurance contract form delivered or issued for delivery in the Philippines, every certificate form evidencing variable benefits issued pursuant to any such contract on a group basis, and the application, rider and endorsement forms applicable thereto and used in connection therewith, shall be subject to the prior approval of the Commission. No such form shall be approved unless it conforms to the requirements of these Guidelines.

B. Mandatory Policy Benefit and Design Requirements

Variable life insurance contracts delivered or issued for delivery in the Philippines shall comply with the following minimum requirements.

(1) The policyholder of a variable life insurance contract must be at least 18 years old.

(2) The minimum death benefit shall be prescribed as follows:

  (a) in the case of a single premium variable life insurance contract,

    (i) 125% of the initial single premium paid; plus

    (ii) 125% of each subsequent top-up premium; minus

    (iii) 125% of each partial withdrawal.

  (b) in the case of an annual premium variable life insurance contract,

    (i) 500% of the current annual premium paid; plus

    (ii) 125% of each subsequent top-up premium; minus

    (iii) 125% of each partial withdrawal; and

    (iv) minimum death benefit should not be affected by a premium holiday.

(3) The withdrawal value of each variable life insurance contract shall be determined at least monthly. 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. Mandatory Policy Provisions

Every variable life insurance contract filed for approval in the Philippines shall contain at least the following:

(1) The policyholder shall have a cooling-off period whereby the variable life insurance contract may be returned within fifteen (15) days of receipt of the policy by the policyholder and receive a refund equal to the market value of the units including initial charges thereof.

(2) A provision of grace period of not less than thirty-one (31) days from the premium due date for any subsequent premium after the first. Any unpaid premium may be deductible from the benefits that may arise during the 31-day grace period.

(3) A provision that the policy shall be incontestable after it shall have been in force during the lifetime of the insured for a period of two (2) years from its date of issue as shown in the policy, or date of approval of last reinstatement, except for non-payment of premium and except for violation of the conditions of the policy relating to military or naval service in time of war.

(4) A provision specifying what documents constitute the entire insurance contract.

(5) A designation of the officers, who are empowered to make an agreement or representation on behalf of the insurer and an indication that statements by the insured, or on his or her behalf, shall be considered as representations and not warranties.

(6) An identification of the owner of the insurance contract.

(7) A description of any adjustments in policy values to be made in the event of misstatement of age or sex of the insured. That if the age or sex of the insured has been misstated, the amount of insurance will be adjusted to the amount which the premium would have purchased at the correct age or sex, applicable risk class, applicable service charges and applicable premium rates as of the policy date. If at the correct age or sex, the insured is not eligible for any coverage under the policy or its incidental benefits, the insurer will refund the corresponding premiums actually received by the insurer less any indebtedness under the policy.

(8) A provision that in the event the policyholder fails to pay a premium on time or discontinues paying premiums, notwithstanding the provision on grace period and notwithstanding periods for nil allocation of premiums, and there are withdrawal values in the policyholder's account, the policy either continues at the same sum assured for the same basic benefits or at a reduced sum assured for death and incidental benefits. If the policyholder fails to pay a premium on time and there are no withdrawal values in the policyholder's account, the policy terminates immediately on the day the premium is due.

(9) A provision that in the event the policyholder wishes to continue to pay a premium at any time within three (3) years from the date of premium default, he may do so upon the written application and submission of evidence of insurability, including good health, satisfactory to the insurer unless the withdrawal value has been paid or the period of extended insurance has expired, and upon payment of all amounts necessary to revive the policy.

(10) A provision stating that the investment policy of the separate account(s) shall not be changed without the approval of the Commission and that the approval process is on file with the Commission.

(11) A description of the basis for computing the withdrawal value under the policy shall be included.

(12) A provision allowing the policyholder to make partial withdrawals;

(13) A statement that while the policy is in force, the Insured may, subject to the approval of the insurer, transfer or "switch" any of his or her units in a particular separate variable account to another separate variable account or some other separate variable accounts which may have been established by the insurer; such "switch" will be effected by the cancellation of the units to be "switched" and the creation of new units in the separate variable account being "switched" to; unit price will be calculated accordingly.

(14) A statement of any conditions or requirements concerning the assignment of the policy where the policy can be used as a security or collateral for any financial dealings. The party to whom the policy is assigned as a security or collateral must notify the insurer in writing of its interest. The insurer shall not be responsible for the verification of the authenticity or validity of any such assignment.

(15) A provision setting forth conditions or requirements as to the designation, or change of designation, of a beneficiary and a provision for disbursement of benefits in the absence of a beneficiary designation.

(16) Premiums or charges for incidental insurance benefits shall be stated separately.

(17) An exclusion for suicide within two (2) years of the issue date of the policy or its last reinstatement, if any, the pertinent provisions of the Insurance Code shall apply. Provided, however, that to the extent of the increased death benefits only, the policy may provide an exclusion for suicide within two (2) years of any increase in death benefits which results from an application of the owner subsequent to the policy issue date.

A provision for benefits payable in case of death by suicide is not compensable shall be included. The benefits payable should not be less than the market value of the units plus initial charges thereof.

Such other provisions as are currently required for traditional life insurance policies and are not inconsistent with these Guidelines shall apply.

D. Other Policy Provisions

The following provision may in substance be included in a variable life insurance contract or related form delivered or issued for delivery in the Philippines.

(1) Incidental insurance benefits may be offered.
(2) Any other policy provision approved by the Commission.

Section 5. Reserve Liabilities for Variable Life Insurance Contracts

Reserve liabilities for variable life insurance contracts shall be established in accordance with actuarial procedures that recognize the variable nature of the benefits provided and any mortality guarantees.

The insurer's actuary shall determine the appropriate methodology and basis for the valuation of liabilities for variable life insurance contracts subject to the approval of the Commission.

The liabilities of the insurer in respect of its variable life insurance contracts shall not be less than the amount needed to meet the withdrawal values, the death claims, administrative expenses and other expenses relating to such policies.

The actuary of an insurer shall ensure that the liabilities of the insurer in respect of its variable life insurance contracts are adequate at all times. The actuary shall increase such liabilities to cover any contingencies or guarantees relating to such policies whenever he or she considers necessary.

Section 6. Unit Pricing

A. Pricing of Units

The selling and buying prices for the units shall be determined in accordance with the following methodologies.

Single Pricing

(1) The net asset value per unit is the market value of the assets of a separate account(s) divided by the total number of units. The net asset value per unit may be adjusted, as appropriate, for an estimated transaction cost per unit that is intended to reflect the average commission and brokerage that is expected to be incurred in respect of the investments of the separate account(s). The transaction cost shall be reviewed regularly, and revised if necessary.

(2) The buying and selling prices per unit are equal to the adjusted net asset value per unit as at the next valuation date, after the receipt of request for purchase of units. Pricing on a "next valuation date" basis is known as "forward pricing".

(3) The basis for determining the selling and buying price for units shall be set according to whether the separate account(s) is in a contracting or expanding status, this being defined as appropriately by the insurer.

Dual Pricing

(1) The net asset value per unit is the market value of the assets of a separate account(s) divided by the total number of units.

The net asset value per unit may be adjusted, as appropriate, for an estimated transaction cost per unit that is intended to reflect the average commission and brokerage that is expected to be incurred in respect of the investments of the separate account(s). The transaction cost shall be reviewed regularly, and revised if necessary.

(2) The offer price per unit is equal to the adjusted net asset value per unit as at the next valuation date plus the initial charge, after the receipt of request for purchase of units. Pricing on a "next valuation date" basis is known as "forward pricing".

(3) The bid price per unit is equal to the adjusted net asset value per unit as at

the next valuation date, after the receipt of the re-purchase request.

(4) The basis for determining the selling and buying price for units shall be set according to whether the separate account(s) is in a contracting or expanding status, this being defined as appropriately by the insurer.

Other Pricing Methods

The buying and selling prices for the units may be determined in accordance with a generally accepted pricing method other than single and dual pricing, subject to the approval of the Commission.

B. Publication of Unit Prices

The insurer must publish the latest values of the following items in at least one national newspaper each time there is a change in unit value but at least on a monthly basis:

(1) The offer/selling price per unit;

(2) The bid/buying price per unit; and

(3) The net asset value per unit.

Section 7. Separate Account(s)

The following requirements apply to the establishment and administration of separate variable account(s):

A. Establishment and Administration of Separate Account(s)

(1) An insurer authorized to issue, deliver, sell or use variable life insurance contracts shall establish one or more separate variable accounts pursuant to Section 243 of the Insurance Code.

(a) If no law or other regulation provides for the custody of separate variable account assets and if such company is not the custodian of such separate variable account assets, all contracts for custody of such assets including any amendments thereof shall be in writing, and the Commission shall have authority to review and approve both the terms of any such contract and the proposed custodian prior to the transfer of custody.

(b) Such company shall not without prior written approval of the Commission employ in any manner in connection with the handling of separate variable account assets any person who:

(i) within the last ten (10) years has been convicted of any felony or a misdemeanor arising out of such person's conduct involving embezzlement, fraudulent conversion, misappropriation of funds or securities;

(ii) within the last ten (10) years has been found by the Commission to have violated or has acknowledged violation of any provision of the Insurance Code involving fraud, deceit, or knowing misrepresentation; or

(iii) within the last ten (10) years has been found by the Securities and Exchange Commission to have violated or has acknowledged violation of any provision of the securities law involving fraud, deceit, or knowing misrepresentation.

(2) All amounts received by the company in connection with any variable life insurance contracts 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 account or accounts.

(3) The assets and liabilities of each such separate variable account shall at all times be clearly identifiable and distinguishable from the assets and liabilities in all the other accounts of the company.

(4) Notwithstanding any provision of law to the contrary, the assets held in any such separate variable account 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 life insurance contracts applicable thereto.

(5) In the event of the insolvency of the company, the assets of each such separate variable account shall be applied to the contractual claims of the owners or beneficiaries of the variable life insurance contracts applicable thereto subject to existing laws and rules and regulations of the Commission.

(6) The reserve liability for variable life insurance contracts shall be established in accordance with actuarial procedures that recognize the variable nature of the benefits provided, and shall be approved by the Commission.

(7) Separate life insurance variable accounts shall not be used for variable annuities or for the investment of funds corresponding to dividend accumulations or other policyholder liabilities not involving life contingencies.

B. Amounts in the Separate Account(s)

The company shall maintain in each separate variable account assets with a value at least equal to the valuation reserves and such other liabilities arising out of the variable life insurance contracts.

C. Investments by the Separate Account(s)

(1) A company which has established one or more separate variable accounts pursuant to Section 243 of the Insurance Code may invest and re-invest all or any part of the assets allocated to any such account in the securities and investments authorized by Sections 204, 206, 207, 208 for any of the funds of an insurance company in such amount or amounts as may be approved by the Commission. In addition thereto, such company may also invest in common stocks or other equities which are listed on or admitted to trading in a securities exchange located in the Philippines, or which are publicly held and traded in the over-the-counter market and as to which market quotations have been available.

(2) No such company shall invest in excess of ten per centum of the assets of any such separate variable account(s) in any one corporation issuing such common stock. The assets and investments of such separate variable account(s) shall not be taken into account in applying the quantitative investment limitations applicable to other investments of the company.

(3) In the purchase of common capital stock or other equities, the company shall designate to the broker, or to the seller if the purchase is not made through a broker, the specific separate variable account(s) for which the investment is made.

(4) The separate variable account(s) shall have sufficient net investment income and readily marketable assets to meet anticipated withdrawals under policies funded by the separate variable account(s).

(5) Except as otherwise specifically provided by the contract, no sale, exchange, or other transfer of assets may be made by a company, between any of its separate variable accounts or between any other investment account and one or more of its separate variable accounts, unless:

   (a) In the case of a transfer into a separate variable account, such transfer is made solely to establish the account or to support the operation of the contracts with respect to the separate variable account to which the transfer is made, or in case of a transfer from a separate variable account, such as transfer would not cause the remaining assets of the account to become less than the reserves and other contract liabilities with respect to such separate variable account; and

   (b) Such transfer, whether into or from a separate variable account, shall be made by a transfer of cash, or by a transfer of securities having a valuation which could be readily determined in the market place, provided that such transfer of securities is approved by the Commission. Only the true and duly verified balances of any current, savings, time and/or fixed deposit in any financially sound commercial banks or trust company may be transferred. For purposes of this sub-section, only the following shall be considered "securities having a valuation which would be readily determined in the market place":

      (i) securities listed in or admitted to trading in a securities exchange located in the Philippines;

(ii) bonds or other evidences of debt of the government of the Philippines, or its political subdivisions authorized by law to issue bonds, or of government-owned or controlled corporations and entities, including the Bangko Sentral ng Pilipinas;

(iii) new bond or debt issues which may reasonably be expected to be listed on a securities exchange located in the Philippines; and

(iv) short-term debt instruments approved by the Commission under Section 207 of the Insurance Code.

(6) The Commission may authorize other transfers among such accounts, if, in its opinion, such transfer would not be inequitable.

(7) All amounts and assets allocated to any such separate variable account shall be owned by the company and with respect to same the company shall not be nor hold itself out to be a trustee.

D. Valuation of Separate Account(s) Assets

Assets allocated to any separate variable account shall be valued at their market value on the date of any valuation, or if there is no readily available market, then in accordance with the terms of the variable contract applicable to such assets. In the absence of such contract terms, assets shall be valued in accordance with the provisions of Section 214 of the Insurance Code.

The assets of such separate variable account shall be valued at least as often as variable benefits are determined but in any event at least monthly.

Otherwise, the valuation shall be book value or acquisition cost whichever is lower, or at a valuation approved by the Commission.

E. Separate Account(s) Investment Policy

(1) The company shall file with the Commission a statement of the investment policy it intends to follow for the investment of the assets held in the separate variable account(s), and a statement of procedures for changing such investment policy. The statement of investment policy shall include a description of the investment objectives intended for the separate variable account(s).