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ASIAN INSTITUTE OF MANAGEMENT
GOV. JOSE B. FERNANDEZ, JR. CENTER FOR SUSTAINABLE FINANCE

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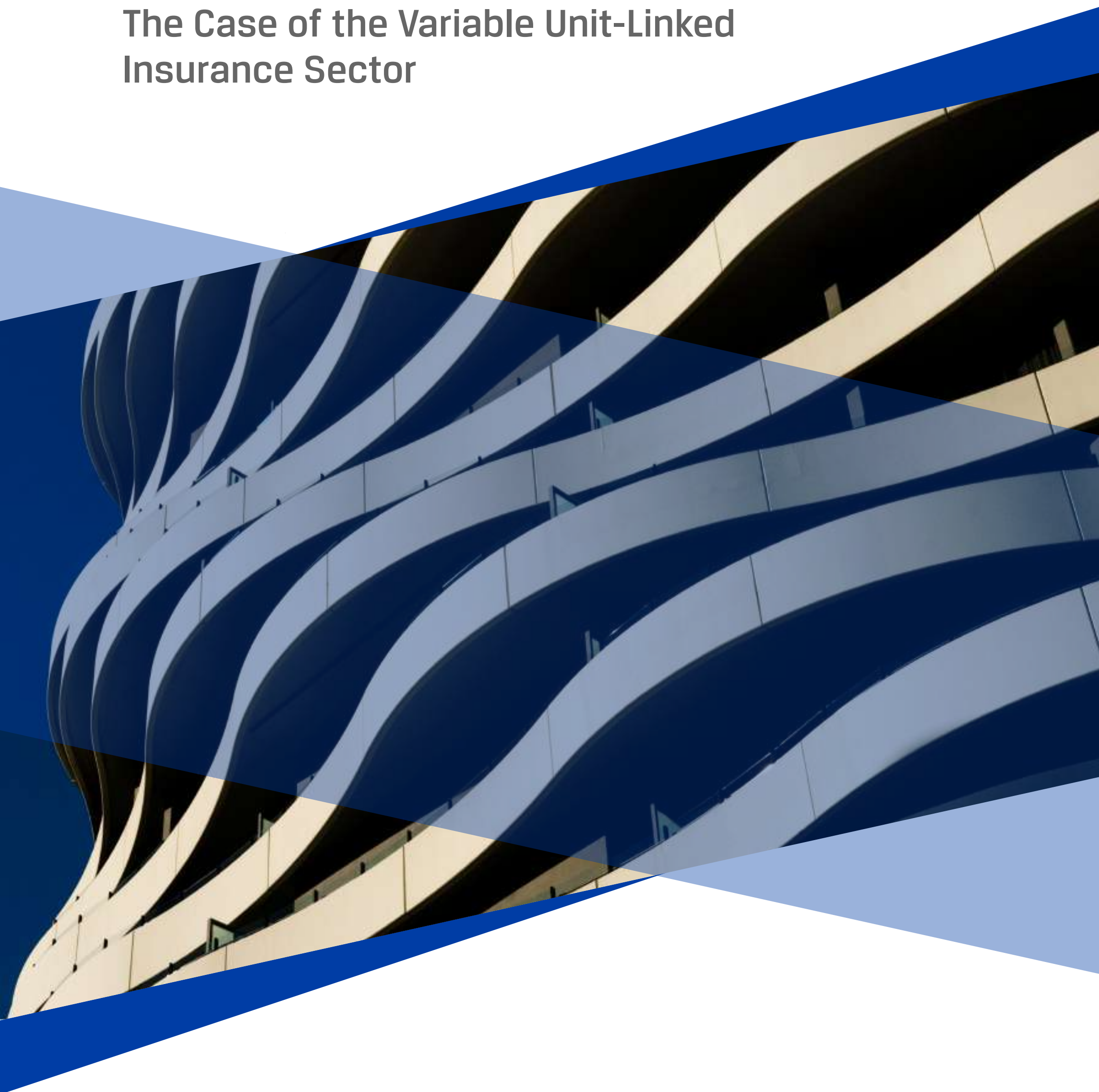
ASSESSMENT OF THE ASSET MANAGEMENT INDUSTRY IN THE PHILIPPINES

The Case of the Variable Unit-Linked Insurance Sector



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FOREWORD

The Philippine asset management business has grown by leaps and bounds over the past few years. When I started as a young banker, most of the individual clients I dealt with simply looked for the time deposit with the highest rate. That changed over the years. As the markets developed, so did client investment preferences. Clients moved from time deposits to government and corporate bonds.

Moving forward, clients then took a large interest in equities, mutual funds, unit investment trust funds and variable unit-linked insurance. We know that there have been a lot of changes as to how clients invest, but what are these?

How large has the market become? What products and services are clients most interested in? This study, the first of its kind in the Philippines, seeks to answer some of these questions so that the responses may be used as input to further develop and grow the market.

We, at CFA Society Philippines, would like to thank our partners, CFA Institute, Asian Institute of Management (AIM), and Fund Managers Association of the Philippines (FMAP), for their tireless efforts in contributing to the development of this study.

Dr. Robert B. Ramos, CFA, CAIA, CIPM
President and Chairman of the Board
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I. Rationale

The insurance sector plays a key role in the socio-economic development of a country, providing financial security to the people as well as contributing to the government in terms of taxes. The sector includes life and non-life insurance as well as pre-need insurers, mutual benefit associations (MBAs), health maintenance organizations (HMOs), and micro- and macro-insurers. The Philippine insurance sector realized significant developments in the past years as evidenced by increase in gross premiums, assets invested, and income of the sector.

The insurance penetration rate, which measures the sector's contribution to the country's Gross Domestic Product, slightly increased from 1.69% in 2020 to 2.03% in the third quarter of 2021 (Bangko Sentral ng Pilipinas, 2022). Life insurance continued to dominate the sector with 39% total share of the market as of 2019. One form of life insurance offered in the country is the variable unit-linked insurance (VUL). A VUL insurance is defined as a life insurance policy with an investment component. VUL insurance includes investment subaccounts, which function similar to a mutual fund, that allow for the investment of the cash value (Investopedia, 2022).

Similarly, the pandemic changed the perception among consumers toward insurance products. A study conducted by EY Global mentioned that there is an approximate increase of 8% in life insurance application by consumers under the age of 45. This reflects the spiking interest among the younger population towards insurance products (EY Global, 2021).

Despite these developments in the industry, the VUL insurance sector still lags behind in terms of the percentage of Filipino adults who own a life insurance. According to the latest Financial Inclusion Survey of the Bangko Sentral ng Pilipinas, the percentage of Filipino adults who own a life insurance in 2019 stands at 23% or equivalent to 16.6 million Filipinos aged 15 years old and above (Bangko Sentral ng Pilipinas, 2022)

With this, the CFA Society Philippines ("Society"), in partnership with the Asian Institute of Management Gov. Jose B. Fernandez, Jr. Center for Sustainable Finance, proposed to conduct an in-depth study on the Philippine asset management industry, primarily focusing on the VUL insurance sector. This is the third phase of a series of studies to assess the Philippine asset management industry, following the assessment of the unit investment trust fund (UITF) and mutual fund sectors in the Philippines.

With the growing prospect for mutual funds in the Philippines and the challenges faced by the VUL insurance industry, it is worth taking a closer look at the industry from the perspective of both the VUL insurance providers and retail investors and to assess the current status, problems, and future direction of the sector while comparing its performance with the UITF and mutual fund sectors.

II. Objectives

The general objective of the research is to assess the status, problems, and prospects of the VUL insurance sector in the Philippines. Specifically, the study aims to:

1. evaluate the market landscape and key characteristics of the VUL insurance sector in the Philippines;
2. determine current problems faced by the key players of the VUL insurance sector in the Philippines;
3. assess the profile of the VUL insurance retail investors in the Philippines;
4. evaluate the level of understanding among Filipino retail investors about VUL insurance;
5. assess the perception among investors and non-investors towards VUL insurance;
6. determine the level of awareness of investors towards socially responsible VUL insurance; and
7. recommend strategies to address the challenges and weaknesses of the VUL insurance sector in the Philippines

III. Research Design and Methodology

A descriptive research design is used to assess the current status, problems, and prospects for the VUL insurance sector in the Philippines. Data were generated from primary and secondary sources.

With the goal of evaluating the performance of the supply side of the VUL insurance sector, , a survey was developed and distributed among the VUL insurance providers in the country. The survey focused on the status, performance, client profile, VUL insurance team, and problems encountered. A key informant interview was also conducted to gather the insights of the Insurance Commission and industry practitioners regarding the prospects of the sector. In addition, to analyze the demand side of the VUL insurance sector, a research survey was developed focusing on the awareness, perception, and attitude of Filipino retail investors. A convenience sample of 200 respondents was targeted, however, only 194 responses were collected through the online survey distribution. Convenience sampling was used because of the absence of data on the total population; thus, those respondents within the network of the research team and the CFA Institute were contacted. The results may not be generalized to the entire population of Filipino adults, but they can be indicative of the behavior of such group of individuals. The sample respondents consist of full-time employees, part-time employees, entrepreneurs, students, retirees, and unemployed individuals.

We then analyzed these data with regard to macroeconomic indicators to evaluate the significant factors affecting the industry. The assessment of the macroeconomic environment, along with the information gathered from the survey and historical data, then were integrated to evaluate the overall outlook for the industry in the next five years.

IV. Literature Review

A. Overview of Insurance and Variable Unit-Linked (VUL) Insurance

The insurance sector is one of the vital components of an economy driven by the amount of premium the industry collects, the important role it plays by covering personal and business risks and the scale of investment the sector is capitalized in. The sector is divided into two major categories, namely, life and non-life insurance. In terms of the distribution system, the sector is composed of insurance agents, brokers, direct sales, and emerging digital channels.

One of the recent developments in the insurance sector is the introduction of variable unit-linked (VUL) insurance. A variable unit-linked (VUL) insurance is defined as a life insurance policy with an investment component. These financial products usually have two important components, namely, protection and investment. A part of the premium paid by the insured person is allocated for protection to cover insured risks, like death, and disability, among others. The remaining portion of the premium paid goes to the investment funds managed by the insurance company or an external administrator. The policyholder has the right to choose what type and structure of funds the premium will be invested in, including the allocation. In the case of VUL insurance, the investment risks are assumed by the insured person. (Ciumas & Chis, 2015).

B. Global Insurance Sector

According to the latest OECD report as cited by Binder, et.al. (2021) on the status of the global insurance industry, the sector recorded a moderated growth of 4.9% from 2018 to 2019 and total premiums reached €5 trillion. The Americas recorded the highest premium growth rate at 6% from 2018 to 2019, followed by Asia-Pacific with nearly 6% year-on-year growth and Europe, the Middle East and Africa (EMEA) with 3% growth from 2018 to 2019 (Binder, Klais, & MuBhoff, 2021).

Life insurance dominated the global insurance industry with 45% of total global premiums in 2019 and a year-on-year growth of 4.4% from 2018 to 2019. Developing countries in the Asia-Pacific recorded the fastest growth in the life insurance segment at 10% from 2018 to 2019 (Binder, Klais, & MuBhoff, 2021).

In the report published by the Insurance Information Institute, global insurance premiums dropped by 2.9% as a result of the COVID-19 world pandemic. It was forecasted that premiums will increase by 3.4% in 2021, 3.3% in 2022 and 3.1% in 2023. The slower forecasted growth in 2022 and 2023 is driven by expected increase in inflation as a result of anticipated supply chain issues, labor shortages and higher energy prices. In terms of value, it is forecasted that premiums will exceed $7 trillion by mid-2022 (Insurance Information Institute, 2020).

C. Forces Shaping the Global Insurance Sector

PwC identified in its report on the Top Insurance Industry Issues in 2021 the major forces that would shape the global insurance sector after the COVID-19 pandemic. When it comes to insurance distribution, the major forces that would shape the industry would include the resilience of intermediaries, rising expectations among commercial and individual buyers, and the elusiveness of building scale in direct channels. It is forecasted that human connections remained to be an important aspect of distributing insurance products to the target clients. Thus, across all sectors, the presence of intermediaries including agents, brokers, and advisors remained valuable to insurance buyers. However, due to the COVID-19 pandemic, channels of communication diverted from in-person meetings to digital communication. Retail and commercial insurance buyers rapidly adjusted to remote engagements, and these resulted to increased expectations for 24/7 service and easy interactions in everything they do. As a result, insurance companies need to fast-track the execution of their digitization roadmaps to address the customer demands for better, faster, cheaper and a more interconnected supply and demand service model (PwC, 2021).

This is supported by a report published by McKinsey & Company in 2020. It was forecasted that by 2030, nearly all key operational processes in the insurance sector would be enabled by automation and digitization. The COVID-19 pandemic accelerated the adoption of new technologies of the insurance sector which resulted to increased digital adoption and shifts toward remote working (Erk, Pedde, & Ouwerkerk, 2020).

Aside from digitization, customer buying behavior towards insurance products would also change. It has been recognized by the sector that when it comes to insurance, there are no standard customers anymore. Thus, solutions and product designs must be unique to address the preferred features by the customers (PwC, 2021). Furthermore, in terms of distribution, the insurance industry will move towards an omnichannel approach, which combines digital self-services and in-person advice for customers. In terms of product landscape, it is forecasted that by 2030, the trends would be simplified product offerings and simplified product portfolio. Those who will succeed in the industry will be the providers who will be able to curtail their product offerings to no more than 5 to 10 products as compared to the traditional 50 to 100 products offered by the insurance providers in the current setting. Simplifying the product offerings and product portfolio will not only minimize the confusion among clients regarding insurance options but it will also result in better efficiency among the insurance providers which will then result in a reduction in operational expenses by up to 30% (Binder, Klais, & MuBhoff, 2021).

This is supported by a report published by EY Global in 2021 on the 2021 Global Insurance Outlook. It was cited that among adults in Europe and North America included in their survey, 63% mentioned that they do not completely understand the extent of their life insurance coverage. Whereas, 50% are not very confident in understanding their insurance coverage and 50% are not very confident that they will receive benefits consistent with their coverage (EY Global, 2021). To address this, the 2022 Global Insurance Outlook recommended several strategies for the sector. Since ecosystems of financial solutions have emerged as one of the defining trends in the financial services sector in 2020, the competitive landscape of the sector should be reoriented around offering seamless experiences, personalized solutions, more meaningful customers engagements and acquiring and using data signals more effectively (EY Global, 2022).

Furthermore, another major force that would change the landscape of the insurance sector is the introduction of InsurTech. InsurTech is intended to address changing customer needs by providing insurance service through a usage-based model "pay as you go" pricing model and personalized insurance solutions to both individual and commercial buyers (Lee, Yong, & Lim, 2018). In order to encourage the proliferation of InsurTechs, some countries lowered the regulatory barriers on these entities. For instance, in Australia, UK and Singapore, insurtechs have been allowed to test their innovative business plans on specific client segments without the need to comply with full regulatory frameworks that are applied to traditional insurance providers. The initial priority of insurtechs has been the retail segment, with 75% of the insurtech businesses in the world focusing on the retail segments in 2017. The rationale behind this is that there are more digitally savvy population among the retail segment especially the young population. Furthermore, these digital savvy segments are less company loyal, and they will switch between financial products and services including insurance for as long as they fulfill their personal needs. Also, this segment of the population values convenience, 24/7 digital channels and the ability to execute transactions remotely (Catlin, Lorenz, Munstermann, & Ricciardi, 2017).

As a result of these driving forces, the capabilities required by the sector from its sales force would also change. Aside from the core, industry-specific capabilities, the insurance sector would also require additional skills, including digitization, data science, behavioral economics, and user experience design (PwC, 2021). As a result of digitization, sales force is expected to gather more insights resulting in a more effective lead generation, better agent matching, and better guidance and recommendation of what products best fit the clients. In addition, as a result of technology adoption and productivity improvements, it is forecasted that the operating models of insurance carriers will be less labor intensive in 2030 as compared to current operations. As a result, elements of the insurance value chain, including product, distribution, pricing and underwriting, policy issuance and service, claims, IT and other support functions will become more automated and efficient as compared to today (Erk, Pedde, & Ouwerkerk, 2020).

D. Philippines: Insurance Sector

The Philippine insurance sector realized a significant growth in the past six years. According to the Philippine Insurance Commission as cited by the Philippine News Agency, the total gross premiums of the sector grew by 64.3% from Php169.6 billion in the third quarter of 2016 to Php278.7 billion in the third quarter of 2021. This translated to a 9.1% compounded annual growth rate. Similarly, the total net income of the industry recorded a 64.1% growth from Php22.85 billion in the third quarter of 2016 to Php37.5 billion in the third quarter of 2021. In terms of contribution of the sector to the Gross Domestic Product, it grew from 1.6% in 2016 to 2.0% in 2021. Total assets of the industry grew by 52.4% from Php1.32 trillion in 2016 to Php2.01 trillion in 2021. Lastly, insurance density or the average amount spent by every Filipino for insurance increased from Php1,768 in 2017 to Php2,528 in 2021 (Philippine News Agency, 2022).

Despite the fast growth of the insurance sector in the country in the past six years, the sector was heavily affected by the pandemic as evidenced by a decline in several indicators from 2019 to 2020. Gross premiums declined by 5.6% from Php224.98 billion in 2019 to Php216.51 billion in 2020. As a result, the net worth of the industry declined by 3.9% while total net income dropped by 8.6% from 2019 to 2020. Similarly, 22 out of the 31 insurance companies in the country recorded a net investment loss ranging from PHP238,000 to PHP1.5 billion during the same period. Life insurance dominates the sector with 70% share of the total premiums (Philippine News Agency, 2022).

In comparison with its foreign counterparts, such as Thailand, Malaysia and India, the Philippine insurance sector lags behind them in terms of insurance penetration. This is a result of low financial literacy rate among Filipinos as compared to their counterparts in the ASEAN region. According to the Bangko Sentral ng Pilipinas Financial Inclusion Survey 2019, the number of Filipino adults that have insurance was estimated at 16.6 million or 23% of the total adult population. Insurance ownership is evidently lower among the youngest segment of the population. Among the Filipino adults aged 15-19 years old, only 5% have insurance. Among those who belong in the 20-29 years old, 25% have insurance. According to the survey, the top reason why Filipino adults do not have insurance is budget constraint, with 55.5 million or 64% of the Filipino adults citing that lack of enough money or no budget is their main barrier to owning insurance. Other reasons cited by the respondents include not feeling the need for insurance, expensive, slow return of insurance, and lack of trust in service providers. Life insurance remains to be the most common type of insurance owned by Filipino adults particularly among the upper class, middle aged and working adults comprising 39% share to the total adults who owned insurance (Bangko Sentral ng Pilipinas, 2019).

In order to address the current issues of the insurance sector as well as to promote the development of the sector, the Insurance Commission (IC) has made several efforts to improve regulatory framework and supervision of the sector. In June 14 2020, the IC issued a Circular Letter No. 2020-73 to adopt a regulatory sandbox framework for insurance technology innovation. This would allow insurers and Fintech players to interact with consumers without compliance to all regulatory aspects. This will enable the players to introduce and test innovative products that will benefit both the consumers and the market (International Monetary Fund, 2021). Furthermore, the commission has been focusing its efforts in improving capital requirements and reshaping the solvency standards to conform to a modern, risk-based capital regime in the last five years (The World Bank Group, 2019).

V. Results and Discussion

A. Philippine Variable Unit-Linked (VUL) Insurance Industry

As of September 2021, there are a total of 133 licensed entities engaged in provision of insurance products in the Philippines. These entities are broken down as follows: 65 non-life insurance providers, 31 life insurance providers and 37 Mutual Benefit Associations (MBA). The total assets of the insurance sector amounted to a total of Php2.01 trillion pesos, the total premiums were recorded at Php278.7 billion and total net income amounted to Php37.5 billion. Life insurance dominated the sector with 79.3% share in total assets which amounted to Php1.6 billion, followed by non-life insurance with 14.6% share or Php294.3 million and MBAs with 6.1% share or Php122.4 million (Insurance Commission, 2022)

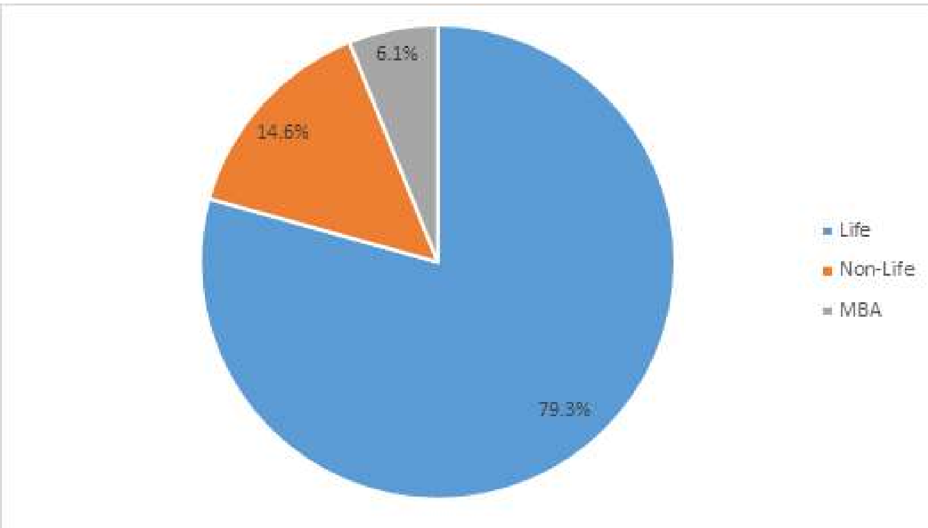

Figure 1. Breakdown of the Total Assets of the Philippine Insurance Sector (2021)

Among the 31 licensed life insurance providers in the Philippines, 26 entities are engaged in providing life insurance exclusively while the other 5 entities are composite companies, meaning they provide both life and non-life insurance products. Among the life insurance providers, Sun Life of Canada (Philippines), Inc. dominated the industry's total assets with 22.4% share, amounting to Php274.3 billion as of the end of 2020. This is followed by Philippine Axa Life Insurance Corporation with 11.6% share or Php141.6 billion and Insular Life Assurance Company, Ltd. with 11.5% share or Php140.8 billion.

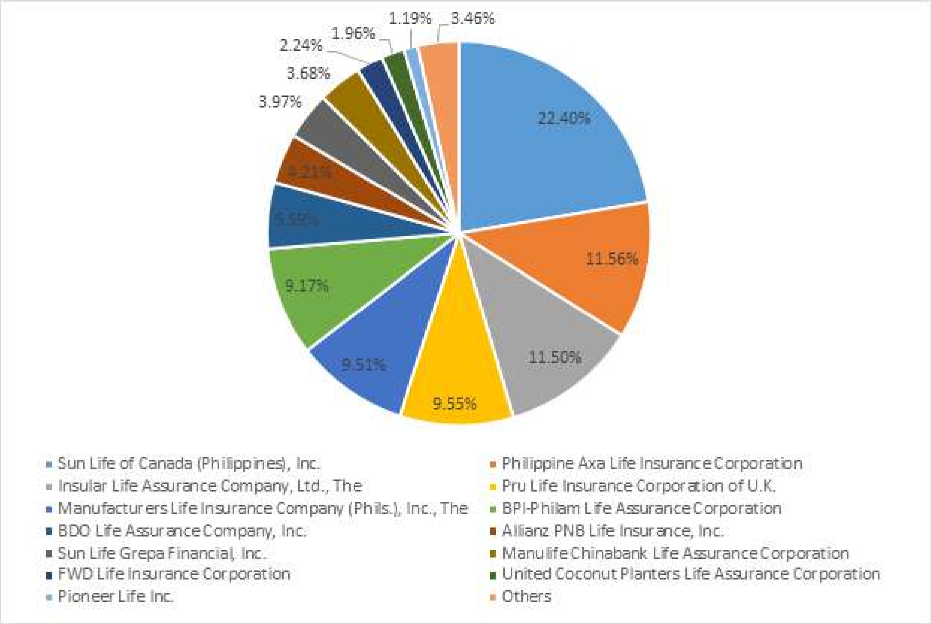

Figure 2. Breakdown of the Total Assets of the Life Insurance Sector by Asset Provider (2020)
Source: (Insurance Commission, 2022)

In terms of premiums, 75.0% was allocated in variable unit-linked insurance while the remaining 25.0% was allocated in traditional insurance. Sun Life of Canada (Philippines), Inc. led the industry with 17.2% share of the premiums amounting to Ph39.2billion. This is followed by Philippine Axa Life Insurance Corporation with 13.7% share or Php31.2 billion and Pru Life Insurance Corporation of UK with 13.6% share of Php31.0 billion.

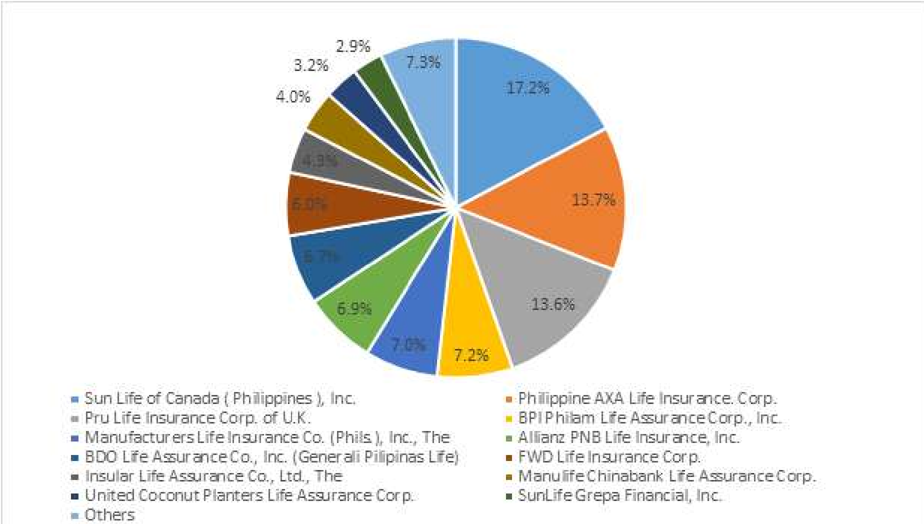

Figure 3. Breakdown of the Premiums of the Life Insurance Sector by Asset Provider (2020)
Source: (Insurance Commission, 2022)

In terms of invested assets, 59.5% was allocated in variable unit-linked insurance while the remaining 40.5% was allocated in traditional insurance. Furthermore, the invested assets on VUL increased by an average of 13.1% from 2016 to 2020 from Php 478.6 billion in 2016 to Php783.6 billion in 2020.

Sun Life of Canada (Philippines), Inc. led the industry with 21.6% share of the invested assets amounting to Php261.0 billion. This is followed by Pru Life Insurance Corporation of UK with 12.5% share or Php150.4 billion and Philippine Axa Life Insurance Corporation with 11.2% share of Php135.6 billion.

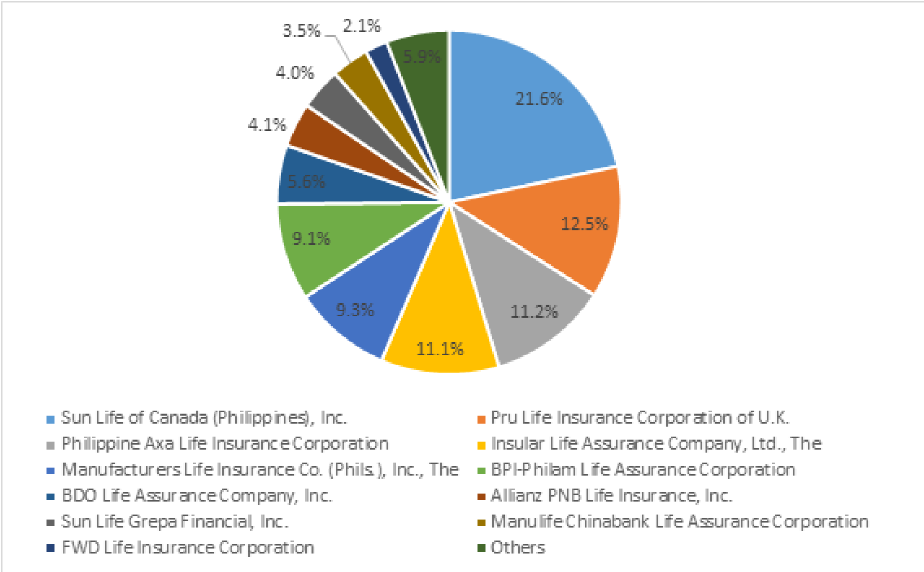

Figure 4. Breakdown of the Invested Assets of the Life Insurance Sector by Asset Provider (2020)
Source: (Insurance Commission, 2022)

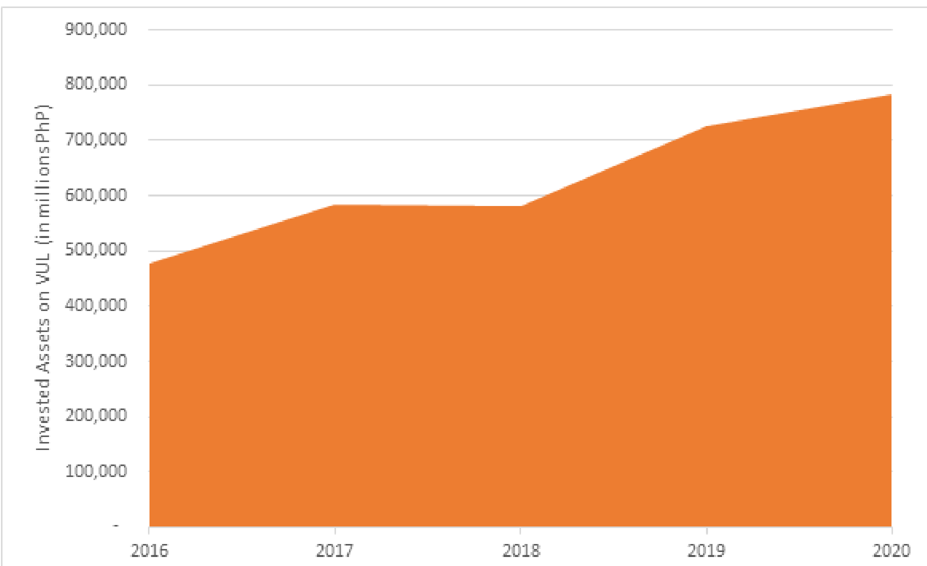

Figure 5. Invested Assets in VUL (2016-2020)
Source: (Insurance Commission, 2022)

Similarly, Sun Life of Canada (Philippines), Inc. dominated the industry's total net income with 33.7% share amounting to Php8.1 billion in 2020. This is followed by Manufacturers Life Insurance Company Inc. with 16.2% share or Php3.9 billion and Pru Life Insurance Corporation of U.K with 13.5% share or Php3.2 billion.

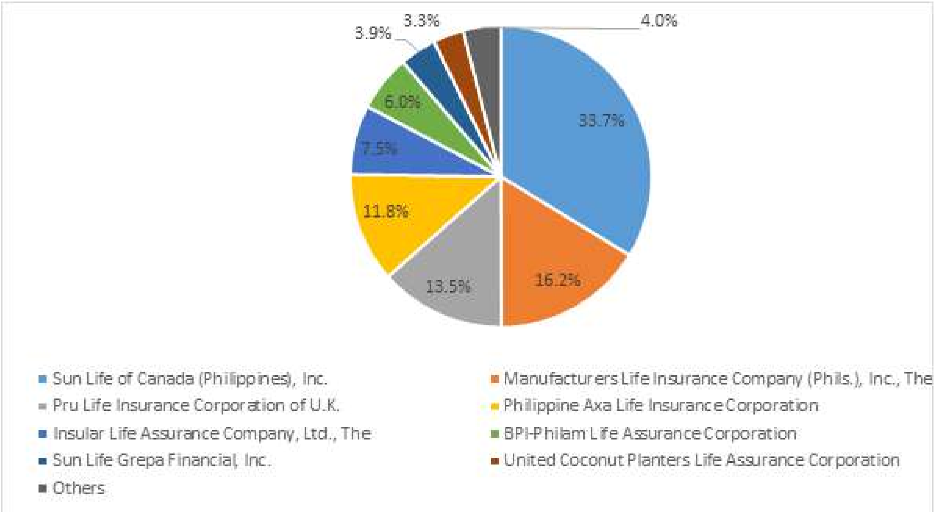

Figure 6. Breakdown of the Total Income of the Life Insurance Sector by Asset Provider (2020)
Source: (Insurance Commission, 2022)

B. Status and Performance of Variable Unit-Linked (VUL) Insurance Providers in the Philippines

To further assess the current status of the VUL insurance sector in the Philippines, a survey was conducted among the VUL insurance providers in the country. Out of the 31 life insurance entities in the country, 8 VUL insurance providers agreed to participate in the survey. The respondents were mostly head of investments or the chief investment officers of their respective financial institutions.

The VUL insurance providers offer a variety of investment products bundled with life insurance offering. These investment products include equity fund, money market fund, bond fund, and balanced fund. Other types of funds include global funds and offshore funds. Furthermore, 100% of the respondents offer these investment products in Philippine peso and US dollar.

Table 1. Types of Investment Products Offered by the Respondents

Type of Fund	VUL Insurance Providers Offering This Fund (%)
Equity Fund	100.00%
Bond Fund	87.50%
Balanced Fund	87.50%
Money Market Fund	62.50%

The average term of the VUL insurance products that the respondents offer does not vary that much due to the nature of the products. Six out of eight (75%) respondents offer VUL insurance products with an average term of more than three years, whereas the remaining 25% mentioned that the average term of their VUL insurance products ranged from 1-3 years. The average annual return varies according to the type of fund, with balanced funds having the most variation.

Table 2. Average Annual Return of VUL Insurance Fund Offerings

Type of Funds	Average Annual Return		
	0–5%	5–10%	10–15%
Money Market Funds	71.4%		28.6%
Balanced Funds	62.5%	25.0%	12.5%
Bond Funds	50.0%	50.0%	
Equity Funds	40.0%	60.0%	

In terms of the main distribution strategy employed by the VUL insurance providers, the sector is still dominated with the use of insurance agents to reach their target clients. The use of digital/mobile strategy is on the rise as well with 50% of the respondents utilizing this distribution strategy. Insurance providers expand their digital presence by utilizing several e-commerce and fintech platforms like Shopee, Lazada and Gcash, respectively. The results are quite similar to the earlier studies on mutual funds wherein the use of digital and mobile strategies was also implemented by the entities as a response to the COVID-19 pandemic which resulted in a limited movement of people and an increase in the use of mobile strategies and internet for transactions. Other strategies include one-on-one referrals and their private networks.

Main Distribution Strategy*	Percentage
Insurance Agents	100.0%
Digital/mobile	50.0%
One-on-one referrals	37.5%
Private networks	12.5%
Other	12.5%

**Multiple responses*

The respondents were also asked about the contribution of the various types of clients to their AUM. Among those who responded, it was cited that 90-100% of their clients belong to the retail category. A small portion is distributed among institutional investors and private banks.

The respondents were also asked about the characteristics of most of their retail investors in terms of sociodemographic, investment profile, and risk appetite. The survey received a high non-response rate among the respondents due to confidentiality of information. Because multiple responses were allowed, responses did not add up to 100% for the variables, including age, profession, risk appetite, and primary reason for investing. When respondents were asked to characterize most of their clients in terms of these variables, some provided multiple answers. To ensure academic integrity, the research included all responses, hence, the distribution.

In terms of annual income class, six out of eight respondents chose not to respond. Hence, the data was just based on the two VUL insurance providers who answered the question. The distribution of clients among the income class showed extreme difference between the two VUL insurance providers. Insular Life cited that most of their clients (65%) belong to Class A and B with an annual income of Php1.2 million pesos and above. Whereas Pioneer Life Inc. cited that the bulk of their retail clients (87%) belong to Class D and E, with a maximum annual income of Php719,999.

In terms of age group, half of the respondents did not characterize their retail clients. Among those who responded, 35-50 years old age group dominates the retail clients of 2 VUL insurance providers. One firm mentioned that majority of their clients belong to the 24-34 years old, while the other firm mentioned that the 51 years old and above age group dominates their retails clients. With regards to profession, full-time employees and entrepreneurs are the dominant group among the respondents. The income class and age characteristics of mutual fund investors are quite similar to the UITF and mutual fund investors. This is indeed reflective of the fact that Filipino investors do not really start at a young age, but most start investing when they start working or when they reach the age of 30. This result, however, also reflects that the trust entities do not focus on the younger segment of the population.

In terms of investing experience, the majority of the clients are clustered into those who are not very familiar, meaning they are primarily invested in bank deposits and those with some experience, meaning they have prior experience in indirect investments, such as mutual funds, pooled funds, or VUL funds. Regarding investment horizon, 37.5% of the respondents indicated that their clients prefer medium-term investments. Lastly, 50% of the VUL insurance providers cited that main purpose of investing among their clients is insurance and protection.

The profile of the VUL insurance holders from the perspective of the insurance providers also reflects the profile of the mutual fund and UITF investors from the perspective of the asset providers. For instance, in terms of annual income, the same distribution holds true for VUL insurance, mutual funds and UITF. Furthermore, the 35- to 50-year-old age group, full-time employees, and moderate-risk appetite dominated the VUL insurance, mutual fund and UITF sectors.

Table 3. Profile of Retail Investors as Perceived by the VUL Insurance Providers

Classification	Percentage
Age*	
24–34 years old	12.5%
35–50 years old	25.0%
above 51 years old	12.5%
No response	50.0%
Profession*	
Full-time employees	50.0%
Entrepreneurs	50.0%
Retired	12.5%
Unemployed	12.5%
No response	50.0%
Risk Appetite*	
Moderate returns with moderate risks	37.5%
High returns with high risks	12.5%
No response	50.0%
Preferred Investment Horizon	
Long term	25.0%
Medium term	37.5%
Short term	0.0%
No response	37.5%
Investing Experience*	
Not very familiar (primarily invested in bank deposits)	37.5%
Some experience (with some prior experience investing in mutual fund, VUL, or other pooled funds)	25.0%
No response	50.0%
Primary Reason for Investing*	
Insurance/Protection	50.0%
Growth	12.5%
Passive Income	37.5%
Retirement	25.0%
No response	37.5%

**Multiple responses.*

Furthermore, the respondents also cited some of the common problems they have experienced with their retail clients. Among the problems cited include lack of understanding of market and products, mismatch in risk profile vs. product bought, unrealistic expectations of returns, changing client needs and preferences, and increased inclination to withdraw or surrender policies due to the pandemic. This is consistent with the problems experienced by mutual fund and UITF providers among their retail clients.

Furthermore, the respondents were asked to rate the skills necessary for a VUL insurance team to succeed in the sector. The scale was from 1 to 5, with 5 being the most important and 1 being the least important. The critical skills vary across the different teams. For the investment team, the top three most important skills are knowledge of financial instruments, portfolio management, and financial analysis. The same is true for the portfolio management team, except that the top skill is the portfolio management skills. In the case of the research team, the top three most important skills include financial analysis, securities research, and presentation skills. Lastly, for the sales team, the top three most critical skills are presentation skills, relationship management, and knowledge of financial instruments. Despite the variation among the different teams, all the teams consider knowledge of financial instruments to be one of the most important skills necessary to succeed in the VUL insurance sector. The same set of skills was also considered as the most important skills in the mutual funds sector.

Table 4. Most Important Skills Needed by VUL Insurance Teams to Succeed in the Sector as Rated by Respondents

Skills	Investment Team	Portfolio Management Team	Research Team	Sales Team	Average
Certification	3.0	2.7	3.7	3.5	3.2
Portfolio Management	4.3	4.8	3.0	2.7	3.7
Knowledge of Financial Instruments	4.6	4.7	4.0	3.7	4.2
Financial Analysis	4.0	4.3	5.0	3.0	4.1
Knowledge of Foreign Languages	1.4	1.5	1.7	1.0	1.4
Relationship Management	3.4	3.3	3.7	4.3	3.7
Presentation Skills	3.5	3.6	4.3	4.7	4.0
Securities Research	3.0	3.2	4.5	2.7	3.3
Digital Advice	3.2	2.5	2.3	2.7	2.7

Among retail investors, limited client knowledge about the VUL insurance offering remains one of the major issues faced by the industry. In terms of skills gaps and problems associated with VUL insurance teams, respondents mentioned the following:

- Training the sales team to educate clients regarding investments and financial literacy;
- High turnover ratio;
- Unable to properly explain the VUL insurance products; and
- Lack of marketing materials for nationwide awareness.

In terms of the outlook on the future direction of the VUL insurance sector in the Philippines, the respondents were asked to rate the various trends and issues in the sector and their impact on their performance. The scale was from 1 to 5, with 5 having the most impact and 1 having the least impact. Based on the survey, the topmost critical trends in the sector are changing demographics of Filipino investors, outdated legislation, competition with local VUL companies and digitization in the financial services sector. The rise of the COVID-19 pandemic changed the perspective of retail investors toward insurance products. Increasing priority for health increased the demand for insurance products. However, comparing the critical factors with the mutual funds and UITF sectors, it is quite evident that digitization is not viewed as a priority by the VUL providers. This is quite in contrast with the trends in the financial services sector wherein the rise of social media and financial technology highlighted the value of convenience and faster transactions. The reliance of the VUL insurance sector on the traditional distribution strategy like the insurance agents might be the reason behind this. The low insurance penetration rate in the country might be related to problems of awareness, availability, and accessibility of these insurance products for the public.

Table 5. Trends in the VUL Insurance Sector as Rated by the Respondents

Trends or Issues in the VUL Insurance Sector	Average Rating
Changing demographics of Filipino investors	4.1
Outdated legislation	4.0
Competition with local VUL companies	4.0
Digitization in the financial services sector	3.9
Competition with UITF	3.5
Competition with foreign VUL companies	3.3
Competition with mutual funds	3.3

C. Awareness and Perception of Retail Investors towards Variable Unit-Linked (VUL) Insurance

A total of 194 Filipino respondents were surveyed with the objective of evaluating their level of awareness, perception, and attitude towards VUL insurance. Because of the absence of the data on the total population of respondents, convenience sampling was used in selecting the survey respondents. Among the 194 unique individuals surveyed, 60.8% are college/postgraduate students, 26.3% are working professionals or employees, 7.2% are full-time entrepreneurs, 2.6% are unemployed, 2.1% are part-time employees, and the remaining 1.0% are retirees.

In terms of sex, 115 out of 194 or 59.3% are female, 78 respondents or 40.2% are male, and the remaining 1 respondent or 0.5% preferred not to classify. The respondents are broken down in terms of age as follows: 61.3% are 23 years old or younger, 17.0% belong to the 23 to 34-year-old age group, 13.4% are between the ages of 35 and 51, and the remaining 8.3% of the respondents are 51 years old or older. Regarding the highest level of educational attainment, 56.7% of the respondents are high school graduates, which accounted for most of the college students who were surveyed. Among the 257 respondents, 33% are college graduate, 7.7% of the respondents hold a master's degree, 1.6% have earned a doctoral or other professional degree, and the remaining 1% of the respondents are elementary graduate. In terms of annual income, 60.3% of the respondents have an annual income of less than Php100,000. This group also account for the student group, which treats allowances from parents as part of their annual income. Among the remaining respondents, 21% belong to the middle-income classification with an estimated annual income of between Php200, 000 to Php800,000. Table 6 summarizes the sociodemographic profile of the respondents.

Table 6. Sociodemographic Profile of the Respondents

Classification	Frequency	Percentage
Student	118	60.8%
Working Professional/Employee	51	26.3%
Full-time Entrepreneur	14	7.2%
Unemployed	5	2.6%
Part-time Employees	4	2.1%
Retiree	2	1.0%
Age Group		
23 years old and younger	119	61.3%
23–34 years old	33	17.0%
35–50 years old	26	13.4%
51 years old and older	16	8.3%
Sex		
Women	115	59.3%
Men	78	40.2%
Unspecified	1	0.5%
Highest Educational Attainment		
High School Graduate	110	56.7%
College Graduate	64	33.0%
Master's Degree	15	7.7%
Doctoral/Professional Degree	3	1.6%
Elementary Graduate	2	1.0%
Annual Income		
Less than Php100,000	117	60.3%
Php101,000–200,000	18	9.3%
Php201,000–400,000	21	10.8%
Php401,000–600,000	12	6.2%
Php601,000–800,000	8	4.1%
Php801,000–1,000,000	3	1.6%
More than Php1,000,000	15	7.7%

The respondents were asked about their familiarity with financial asset investments. Of the 194 respondents, 36.6% mentioned that they are not very familiar with investing in financial assets, meaning they primarily invest in bank deposits. The same level of familiarity is dominant within the groups of students and unemployed. Meanwhile, 29.4% had some experience in financial asset investments, such as UITFs, mutual funds, VUL, and managed funds, among others. The same level of familiarity is dominant within the groups of full-time entrepreneurs, part-time employees, working professionals, and retirees. Comparing the results with the previous studies on UITF and mutual funds, the respondents in the survey quite differ in terms of the dominant familiarity level. However, the results are consistent with the previous two studies in terms of students having the greatest percentage of inexperienced investors, as they either have no experience in financial asset investment or are not very familiar with financial asset investment.

Table 7. Familiarity in Financial Asset Investment

Familiarity in Financial Asset Investment	Student	Full-time Entrepreneur	Part-time Employee	Working Professional/ Employee	Retiree	Unemployed	Total
Zero experience, no investment at all	33.0%	7.1%	25.0%	9.8%	0.0%	40.0%	25.3%
Not very familiar (primarily invested in bank deposits)	41.5%	42.9%	0.0%	27.5%	0.0%	40.0%	36.6%
Some experience, indirect investments (UITF, mutual funds, VUL, managed funds, etc.)	20.3%	50.0%	75.0%	41.2%	50.0%	20.0%	29.4%
Wide experience, both direct and indirect investments (mutual funds, UITF, time deposits, bonds, stocks, forex, derivatives, etc.)	4.2%	0.0%	0.0%	21.6%	50.0%	0.0%	8.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Regarding the breakdown of financial asset investments, cash and cash equivalents have the greatest share of the total portfolio with 30.5%. This is followed by equities with 16.6% share, insurance products with 11.5% and funds with 11.3% share. These results are consistent with the mutual fund study where cash, equities, and insurance products dominate the portfolio of those who have current financial investments.

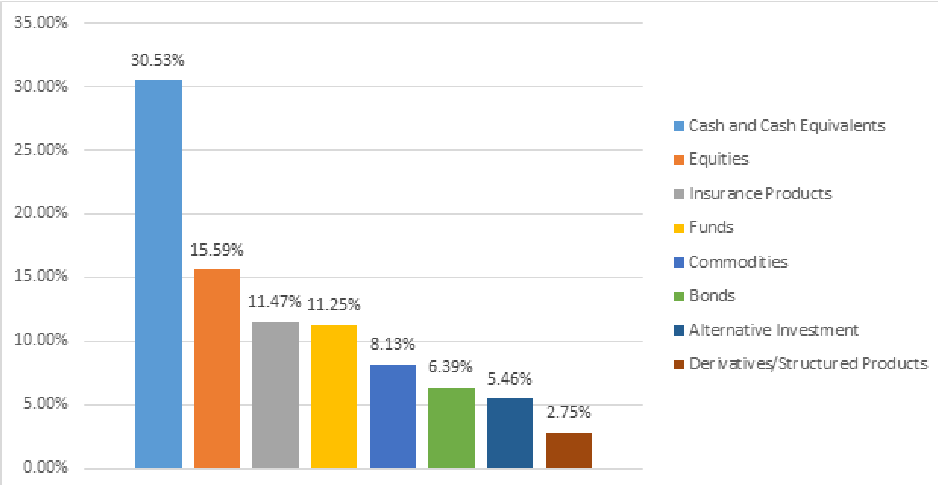

Figure 7. Average Percentage of Investment among Respondents according to Asset Type

When asked about their main purpose of investing, the respondents cited various reasons or motivations. Primarily, the top three most cited reasons for investing are to have an additional source of income (45.4%), to keep their assets intact (20.1%), and to generate a significant capital appreciation (12.9%). Again, this finding is consistent with the results of the UITF and mutual funds survey with almost the same percentage of respondents citing additional source of income as their primary motivation for investing.

Table 8. Main Purpose of Investing

Main Purpose of Investment	Percentage
To have an additional source of income	45.4%
To keep my assets intact	20.6%
To generate significant capital appreciation	12.9%
To have a regular source of income	10.8%
No investment	5.7%
Wealth transfer	1.0%
Protection/Security	1.0%
Savings	1.0%
Future retirement	0.5%
Total	**100.0%**

The risk and return expectations of the respondents were another area of inquiry. Based on the results of the survey, 63.4 % preferred moderate return with moderate risks. This finding is consistent among the respondent groups.

Comparing the risk and return expectations of the VUL insurance group with the mutual fund group and the UITF group, we observed that the characteristics of the respondents were consistent.

Table 9. Risk and Return Expectations among the Respondent Groups

Risk and Return Expectations	Student	Full-time Entrepreneur	Part-time Employee	Working Professional/ Employee	Retiree	Unemployed	Total
Low returns with low risks	28.8%	21.4%	25.0%	29.4%	0.0%	40.0%	28.9%
Moderate returns with moderate risks	61.0%	78.6%	50.0%	66.7%	100.0%	60.0%	63.4%
High returns with high risks	10.2%	0.0%	25.0%	3.9%	0.0%	0.0%	7.7%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The return expectations of the respondents are quite distributed with a bigger percentage clustered between 6.0% and 10.0%. This finding is consistent among the respondent groups except for the unemployed group. Among the unemployed respondents, 60% expect that the annual return from their investments would be between 0-5%. The findings are consistent with the UITF and mutual fund survey wherein the return expectations are leaning towards the 0-5% range.

Table 10. Target Annual Return When Investing among Respondent Groups

Target Annual Return	Student	Full-time Entrepreneur	Part-time Employee	Working Professional/ Employee	Retiree	Unemployed	Total
0–5%	25.4%	7.1%	25.0%	19.6%	0.0%	60.0%	23.2%
6–10%	45.8%	64.3%	25.0%	35.3%	50.0%	20.0%	43.3%
11–15%	13.6%	14.3%	0.0%	29.4%	50.0%	20.0%	18.0%
16–20%	1.7%	7.1%	50.0%	7.8%	0.0%	0.0%	4.6%
Above 20%	13.6%	7.1%	0.0%	7.8%	0.0%	0.0%	10.8%
Total	**100.%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

In terms of frequency of monitoring their investments, the responses varied. The largest percentage of respondents (36.1%) indicated that they monitor their investments on a monthly basis.

Table 11. Frequency of Investment Monitoring

Frequency of Investment Monitoring	Percentage
Daily	12.37%
Weekly	20.10%
Monthly	36.08%
Yearly	13.40%
Never	18.04%
Total	**100.00%**

After assessing the sociodemographic characteristics and investor's profile of the respondents, they were then asked about their level of understanding regarding VUL insurance. The respondents were asked to rate their level of understanding of mutual funds on a scale of 1 to 5, with 5 having the highest level of understanding.

Among the 194 respondents, the average rating given to the level of understanding towards VUL insurance is 2.3. This is considered low in comparison with the midpoint of the scale as well as in comparison with the results of the mutual fund survey. The findings indicate that the respondents have low level of familiarity and understanding toward VUL insurance. Looking at the various respondent groups, the retirees have the highest average rating in terms of the level of understanding towards mutual funds at 4.0. This is understandable since the retirees are in the stage of claiming the benefits of their respective life insurance. This is followed by the group of full-time entrepreneurs with an average rating of 3.3, part-time employees with an average rating of 3.0, and working professional/employees with an average rating of 2.9. The respondent groups with the lowest average rating on the level of understanding towards mutual fund include the student group with 1.9 and the unemployed with an average rating of 2.2.

Table 12. Perceived Level of Understanding towards Mutual Funds and VUL Insurance among Respondent Groups

Respondent Group	Average Rating	
	Mutual Funds	VUL Insurance
Student	2.7	1.9
Full-time Entrepreneur	3.6	3.0
Part-time Employee	3.4	3.3
Working Professional/Employees	3.3	2.9
Retiree	2.0	4.0
Unemployed	3.8	2.2
Average	**3.1**	**2.3**

The respondents were asked if they have invested or are currently investing in VUL insurance. Among the 194 respondents, 144 (72%) has no VUL insurance and the remaining 50 (28%) respondents mentioned that they currently own a VUL insurance policy. Those who currently own a VUL insurance policy are primarily retirees and part-time employees. For the full-time entrepreneurs and working professionals, these groups are still dominated by those who do have a VUL insurance policy. The results are consistent with the percentage of Filipino adults who currently owns an insurance policy which stands at 23%. However, this is lower compared to the percentage of surveyed respondents who invest in mutual funds which stand at 44%.

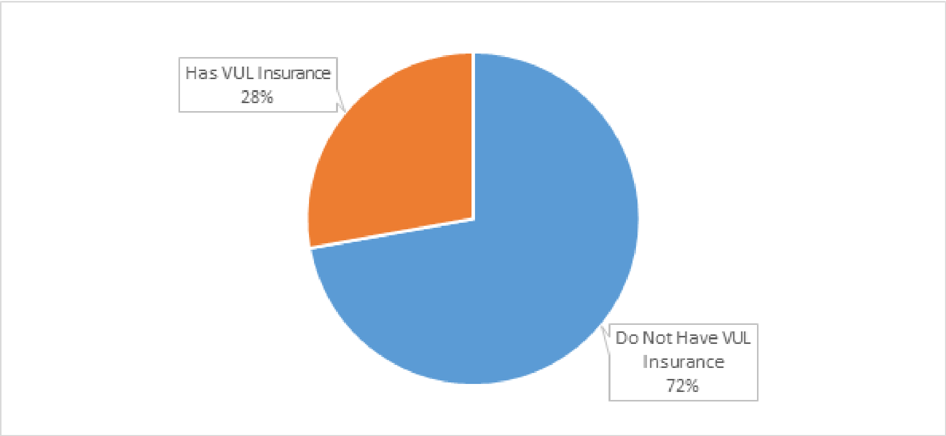

Figure 8. Investment Experience in VUL Insurance

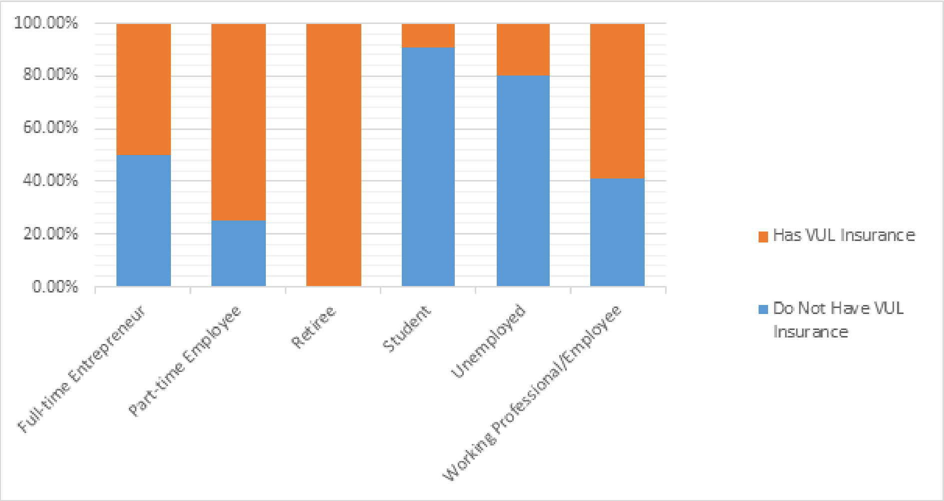

Figure 9. Investment Experience in VUL Insurance among Respondent Groups

Among those who either have invested or currently investing in mutual funds, 56.6% mentioned that they have invested or have been investing for more than three years. The rest of respondents have varied responses, ranging from less than six months to three years.

Table 13. Number of Years Investing in VUL Insurance

Period	Percentage
Less than 6 months	7.6%
6 months to 1 year	9.4%
1 year to 3 years	26.4%
More than 3 years	56.6%
Total	**100.0%**

The respondents who are currently investing in or have invested in VUL insurance were asked about their investment choices based on the survey results. Equity fund dominates with 61.5% of the respondents indicating this type of fund. This is followed by balanced fund (19.2%), money market fund (11.5%), and bond fund (7.7%).

Table 14. Type of Funds the Respondents Currently Invest In

Type of Fund	Percentage
Equity Fund	61.5%
Balanced Fund	19.2%
Money Market Fund	11.5%
Bond Fund	7.7%
Total	**100.0%**

When asked how many VUL insurance policies they currently have, majority of the respondents (50.9%) said that they own 1 policy. This is followed by 2 policies (18.9%) and 3 policies (13.2%).

Table 15. Number of VUL Insurance Policies the Respondents Currently Have

Number of VUL Insurance Policies	Percentage
1	50.9%
2	18.9%
3	13.2%
4	9.4%
5	3.8%
More than 5	3.8%
Total	**100.0%**

In terms of the average annual return realized from their VUL life insurance, it is evident that across the different types of funds, the realized annual return for most of the respondents ranged from 0% to 10%. Meanwhile, the most common frequency of premium payment is on a monthly basis.

Table 16. Frequency of Premium Payments

Frequency of Premiums Payment	Percentage
Monthly	41.5%
Quarterly	32.1%
Half Year	1.9%
Yearly	24.5%
Total	**100.0%**

Table 17. Average Annual Return of VUL Insurance Investment

Average Annual Return	Money Market Fund	Bond Fund	Balanced Fund	Equity Fund
0–5%	47.8%	44.0%	41.9%	34.2%
6–10%	26.0%	36.0%	35.5%	41.5%
11–15%	4.5%	8.0%	16.1%	12.2%
16–20%	21.7%	8.0%	3.2%	9.8%
Above 20%		4.0%	3.2%	2.4%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The respondents were asked what features of VUL insurance they value as an investor. They were asked to rate the importance of the mutual fund feature on a scale of 1 to 5, with 5 having the highest level of importance. Based on the results, accessibility is the highest rated feature with a rating 4.2, followed by transparency and professional fund management with a rating of 4.1.

Table 18. VUL Insurance Features That Retail Investors Deemed to Be Important

VUL Insurance Features	Average Rating
Accessibility	4.2
Affordability	4.0
Better earnings potential	3.9
Transparency	4.1
Liquidity	3.7
Professional fund management	4.1

The respondents were also asked on the factors that motivate them to invest in VUL insurance. The top responses among the retail investors include professional advice, protection, insurance, social media, and family. With this, it is evident that the retail investors value the professional advice that they can potentially get from their financial advisors, as well as the protection component of the insurance.

Figure 10. Factors that motivate the retail investors to invest in VUL insurance

Similarly, the respondents were asked regarding problems they encounter with their VUL insurance. The top responses include high fees or hefty charges from the insurance companies, lower returns as compared to their expectations, and problems with the financial advisor which include transparency in terms of information, as well as inability to explain fully the features of their insurance. This why the retail investors do not fully understand their VUL insurance investment, and they find it hard to grasp.

Figure 11. Problems encountered by the retail investors in their VUL insurance

Lastly, the respondents were asked about their level of familiarity with socially responsible VUL insurance. Respondents rated their level of understanding on a scale of 1 to 5, with 5 having the highest level of understanding. Based on the results, the respondents perceived that they have a relatively low level of familiarity and understanding of socially responsible VUL insurance with an average rating of 2.0. The part-time employees recorded the highest level of rating of 3.5 while the students are the least familiar with an average rating of 1.8. When asked if they are willing to invest on socially responsible VUL insurance, majority of the respondents are unsure. The lack of familiarity towards this type of fund affects their indecisiveness in investing in socially responsible VUL insurance.

Table 19. Level of Familiarity on Socially Responsible VUL Insurance Funds

Respondent Group	Average Rating
Student	1.8
Full-time Entrepreneur	1.9
Part-time Employee	3.5
Working Professional/Employee	2.4
Retiree	2.5
Unemployed	2.4
Average Rating	**2.0**

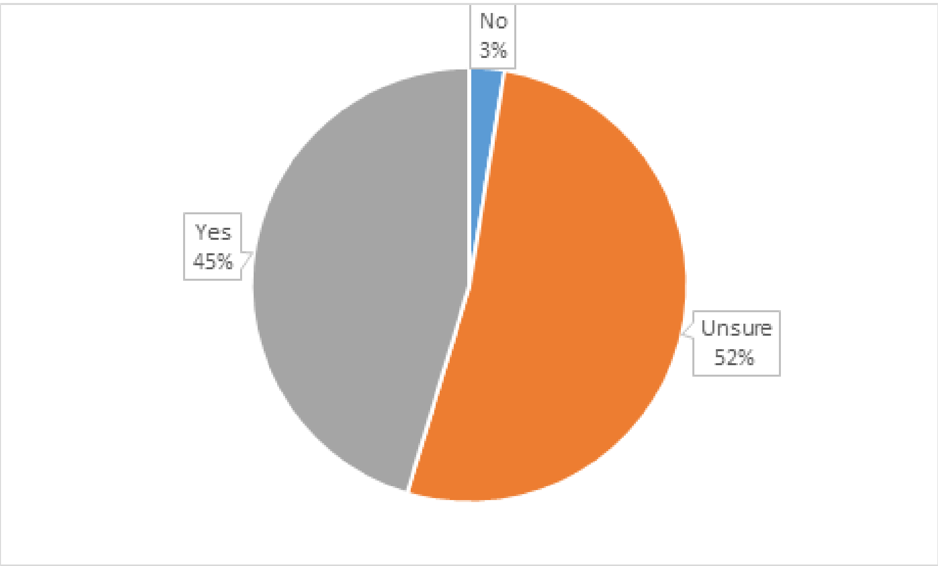

Figure 12. Willingness to Invest in Socially Responsible VUL Insurance

VI. Conclusion

Similar to the UITF and Mutual Fund studies conducted in 2020 and 2021, respectively, the results of this study suggest that there are gaps between the demand side and the supply side of the VUL insurance sector in the Philippines.

From the demand side, though the percentage of respondents currently investing in mutual funds is higher than the investment rate from the BSP Financial inclusion survey, it is still considered low. It is also evident that most of those who are not invested in VUL insurance belong to the young group of the population, which is consistent with the previous studies conducted in mutual funds and UITF.

Similarly, the problems encountered by the retail investors with regards to their VUL insurance are consistent with the problems encountered by the retail investors toward their UITF and mutual fund investments. These include the low level of understanding and knowledge of their investments which results to low level of satisfaction with the performance of their investments.

From the supply side, based on the 2019 values comparison, VUL insurance leads the pooled investment fund sector with a recorded invested assets in VUL which amounts to Php726.5 billion. This is compared with the AUM of UITF of around Php657.6 billion and AUM of mutual fund which stands at Php284 billion.

In terms of client profile, the VUL insurance is dominated by the retail segment, with 90-100% share of the total sector. In terms of age profile, the retail clients of VUL insurance primarily belong to the 35-50 years old group, consistent with the UITF and mutual fund studies. Despite the emerging interests among the young population towards insurance, it was not yet reflected in the study. Similar with mutual funds and UITF, accessibility is the top feature that is most valued by the retail clients. The importance of digitization in the distribution of insurance was noted in the global insurance outlook but VUL insurance providers do not recognize this as the top trend in the industry. The sector is still heavily reliant on traditional insurance agents or brokers in reaching their clients.

Like the UITF and mutual fund sectors, the VUL insurance segment experienced problems regarding their team, specifically on the knowledge of the various product offerings to investors. This further explains the low level of understanding among retail investors.

These findings are consistent with the previous studies conducted on the awareness and perception of retail investors towards VUL insurance as well as the critical success factors that drive industry performance.

VII. Recommendations

To strengthen the presence of mutual funds in the minds of investors and increase the investment rate of VUL insurance especially within the younger segment of the market, several strategies must be put into place. These strategies include the following:

1. Make VUL insurance more accessible by utilizing digital platforms and financial technology. The emerging trend in the financial services sector is building an ecosystem that will integrate the financial products available in the market. With the onset of the pandemic, digital transformation served as a key driver for various industries, including the investment management industry, as highlighted by various industry reports mentioned in the review of literature. Furthermore, accessibility has been identified by retail investors as one of the most important features of VUL insurance. Thus, to thrive in the industry post-COVID 19 pandemic, VUL players must focus on digital transformation and must utilize the financial technology and insurtech to capture more retail clients, retain existing ones, and increase awareness among the younger segment of the population.

2. Improve the low level of awareness among the retail investors which is driven by the lack of knowledge among the VUL insurance sales team. Personal relationship is still one of the most important trends in the sector, thus, the insurance agents are deemed necessary. However, the relationship between the insurance agent and the broker usually stops upon sale of the insurance. There is no continuous monitoring that will educate the retail investors on the performance of their investments.

3. Customized insurance products are the future for the industry. Since it is recognized by the Global Insurance Outlook Report that there is no standard customer in the insurance sector, insurance companies should look into providing customizable products that are best suited to the client's profile. This will also aid in better understanding of the client's chosen investment.

4. Integrate VUL insurance in an employee guaranteed investment plan. Integrate VUL insurance for employees through partnerships with private companies and the government through a guaranteed investment plan. This will enable a portion of the income of the employees to be invested in VUL insurance. Partnerships with educational institutions can be done to increase the awareness and financial literacy among the youth.

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