FUND MANAGERS ASSOCIATION OF THE PHILIPPINES

FMAP Fund Managers Association of the Phils., Inc.

Investment Funds in the Philippines

Introduction

The Philippine Statistics Authority (PSA) estimated that the country's population would surpass 110 million by 2020 and, according to Commission on Population and Development Executive Director Juan Antonio Perez Ⅲ, as of December 2019, the country's working age population reached 70.3 million or 64% of the total population. Importantly, this group has a median age of only 23.1 years, making it the youngest in the Asia Pacific region. Thus, these working-age Filipinos represent a sweet spot for the economy, conferring a demographic advantage to the country's growth. Moreover, through their financial decisions, they could have a multiplier effect on economic growth if they receive the proper education, guidance and support.

With this potential in mind, in September 2019, the Philippine House of Representatives approved House Bill No. 304 which covers the fourth package of the Duterte Administration's comprehensive tax reform program. The bill provides for a more efficient tax on capital income and financial intermediaries in the financial sector, including the tax provisions on Collective Investment Schemes (CIS). A CIS is any arrangement whereby funds are solicited from the investing public and pooled together for the purpose of investing, reinvesting and/or trading in securities or other investment assets or different classes thereof. There are three common types of CIS and these are mutual funds (MFs), unit investment trust funds (UITFs) and variable-universal life (VUL) insurance. They are governed by three separate regulatory bodies, the Securities and Exchange Commission (SEC) for MFs, Bangko Sentral ng Pilipinas (BSP) for UITFs, and the Insurance Commission (IC) for variable-universal lifes (VULs).

The Mutual Fund Industry

The MF industry is the most transparent and investor participative investment option in the Philippines. MF is an investment company which is made up of a pool of money collected from shareholders to invest in various securities like bonds, stocks, money market instruments, and other assets. The concept of MFs in the Philippines can be traced back to the early 1950s when the increasing prominence of off-shore funds worldwide led to the creation of MFs in the country. Since it was a new financial vehicle at that time, there was no law governing the establishment and operations of MFs. As a result, MF companies were registered as finance companies.

The lack of rules and regulations allowed for scams to plague the industry and for these finance companies to exploit investors. Some firms implemented long-term investment programs wherein they made the investor commit to a fixed payment scheme, pocketing the initial subscriptions within the first year as commission and obliging investors to make successive payments in the hope that they could breakeven. Some MFs even made profits off the excessive front-end charges ranging from 8% to a staggering 50%. Under these circumstances, many investors expressed their disapproval of the way these funds were being sold and managed. Eventually, the collapse of the stock market in the late 1950s brought about the closure of three of the four MF companies in operation, and the absence of regulatory oversight became glaringly obvious.

In light of this fiasco, the government enacted RA 2629 otherwise known as The Philippine Investment Company Act (ICA) in June 1960. This act, which derives many of its provisions from the US ICA of 1940, was designed to ensure the protection of investor rights. It grants the SEC authority to prescribe the regulation of investment companies and requires investment companies to register to operate as such by filing a registration statement with the SEC (Section 7). Likewise, it stipulates that securities issued by the investment companies must be registered under the Securities Act (now Securities Regulation Code) (Section 24). The ICA promotes stringent adherence to the Investment Policy by prohibiting activities such as the borrowing of money, issuance of senior securities, underwriting of securities issued by other companies, purchase or sale of real estate or commodities, and deviation from any fundamental policy recited in the IC's registration statement without shareholder approval (Section 12). Lastly, to regulate an industry formerly overrun by scams, it explicitly prohibits the guarantee of any obligation of whatever kind or nature to investors (Section 21).

The ICA requires investment companies to comply with certain standards which include regular public disclosure of financial statements, investment policies and objectives, and pricing and fees. While bolstering investor confidence in MFs, the ICA created rigid rules that hampered the development of the industry. Nevertheless, the MF industry began to thrive in contrast to the equities market which was beginning to show signs of deterioration brought about by the political instability of the existing dictatorial regime. MFs were heavily dependent on the equities market since the lack of other investment outlets limited diversification. When the Manila Stock Exchange took a 30% dive, the MF industry was severely affected causing the SEC to ban the sale of MFs in 1973.

In an effort to revive the industry, the SEC released the Implementing Rules and Regulations (IRR) of the ICA in 1989. Ten years later, the IRR was amended as The Investment Company Rule or ICA Rule 35-1. The IRR changed the existing provisions of the said law regarding organization and capitalization requirements, sale of securities, investment of the fund, redemption of securities, required net worth of investment managers and frequency of submission of required reports. In 2018, the SEC released the new ICA IRR to align the existing rules with global standards and practices and make investment companies more competitive globally. This shift was made to develop the Philippine capital market and help prepare investment companies to qualify and compete in international cross-border transactions. The notable highlights of the new ICA IRR of 2018 are the inclusion of the word "fund" in the corporation's name, minimum subscribed and paid up capital of PHP 50 million or at least USD one million under certain conditions, availability of a prospectus which shall state among other things, the initial minimum and subsequent investment, and allowance of a shelf registration program.

Throughout the decades, the MF industry has grown in several ways. The Philippine Investment Funds Association (PIFA), formerly known as the Investment Company Association of the Philippines, provides relevant statistics on the industry. Based on PIFA reports, net assets in the MF industry have grown from PHP 75.7 billion in 2006 to PHP 256.2 billion as of end-2018 (Table 1). In line with this, the number of investors and investor sophistication have also grown over the same period. The shift from fixed income-type funds to more equity-oriented funds indicates a rising risk tolerance of Filipino investors and the number of investment accounts has grown almost fourfold.

Despite these developments, MFs lag the other CIS like UITFs and VULs available in the market. There are still stumbling blocks that the industry must overcome in order to catch up to the other pooled investment vehicles. One of the issues they face is the relatively challenging regulations governing the MF industry. Because MFs need to be incorporated and registered with the SEC, setting up new funds is time consuming and costly. In contrast to other pooled funds, the investment universe and allowed range of products are more limited for MFs. Additionally, liquidity requirements for MFs are stricter than for their CIS counterparts. Consequently, fund managers are hesitant to launch new funds, which an is reflected in the low number of MFs, only 61, versus the 250 or so unit investment trust funds available in the market as of 2018.

Other reasons for the lackluster growth in the industry include the difficulty of pushing MFs to potential investors. The MF industry is primarily dominated by the large insurance companies or the insurance arms of banks in the Philippines. Although these groups have investment solicitors to tap retail markets, agents are less incentivized to sell MFs compared to insurance products which charge higher fees and thus yield higher agent commissions. MF players are also disadvantaged vis a vis banks which have large nationwide branch distribution networks.

Nevertheless, industry players have made giant steps forward. Local associations of fund managers – including the Fund Managers Association of the Philippines (FMAP), Trust Officers Association of the Philippines, and PIFA – whose primary mission is to help the investing public economically and at the same time adhere to ethical standards through continuous educational efforts and development of markets are in constant communication with regulators and industry participants to address some of the issues discussed. Outside of the industry, players in the fintech space are also generating creative solutions to distribute MFs and introduce Filipinos to investing. Some inroads have been achieved in getting the younger population into online investing with affordable minimum investment requirements, regular investing habits and in beginning to tap the unbanked population.

Table 1: Size of the MF Industry by Fund Type

Fund Type	2006			2018		
	AUM (PHP Billion)	# of Funds	# of Accounts	AUM (PHP Billion)	# of Funds	# of Accounts
Equity	6.6 (8.7%)	8	21,602	103.9 (40.6%)	21	238,192
Balanced	8.0 (10.6%)	7	21,833	26.9 (10.5%)	14	87,745
Bonds	60.6 (80.1%)	20	70,846	72.7 (28.4%)	22	70,556
Money Market	0.5 (0.6%)	3	394	52.7 (20.6%)	4	42,059
Total	**75.7 (100%)**	**38**	**114,675**	**256.2 (100%)**	**61**	**438,552**

Source: PIFA

Unit Investment Trust Funds

In its continuous pursuit of capital market development, the BSP introduced UITFs as one of the primary CIS in the market. As per BSP Circular No. 447, UITFs are defined as open-ended pooled funds under the administration and management of trust entities. The funds are principally anchored by a trust agreement, commonly known as the Plan Rules or Declaration of Trust. The trust agreement outlines the classification, investment objectives, limitations, trustees' investment powers, terms and conditions governing fund participation, and assigned trust fees and other expenses of each fund. Given the magnitude of the distinguishing elements for UITFs, there are more than 250 UITF products as of December 2018, offering a vast selection for investors with differing risk profiles.

In September 2006, the central bank mandated the shift of common trust funds (CTFs) to UITFs in observance of international best practices and in enactment of additional safeguards to investment outlets. Fundamental modifications in replacing CTFs with UITFs included the following provisions:

1) Adoption of mark-to-market valuation of a fund's assets;

2) Computation of beneficial interest represented by the net asset value (NAV) per unit; and

3) Omission of reserve requirements and single borrowers limit for the fund.

To ensure a fund's liquidity and capacity for mark-to-market valuation, UITFs may only purchase active and marketable securities. These provisions are essential to establishing UITFs as safer investments than CTFs since current market prices improve the transparency and credibility of a fund's assets. Furthermore, the institution of UITFs equipped the market with another investment alternative within the reach of both institutional and retail investors.

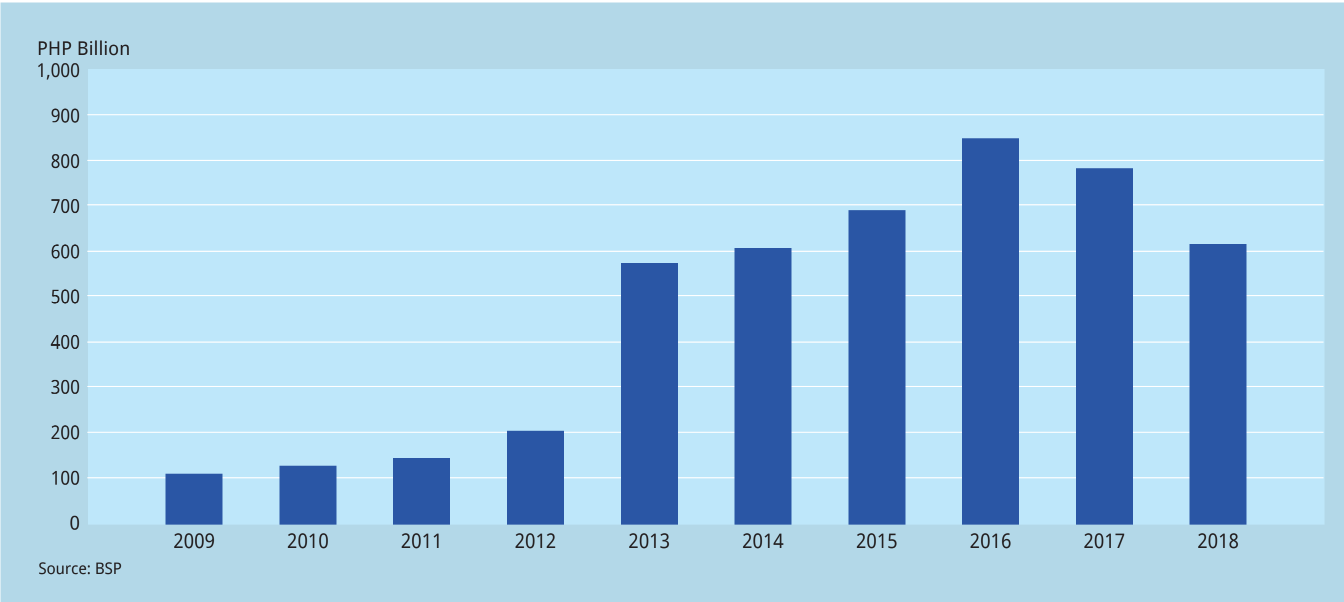
The BSP has implemented significant reforms as part of its initiatives to augment market-making activities and market penetration. As stipulated in the BSP Circular No. 853 (2014), UITFs may come in the form of feeder funds, funds-of-funds, or multi-class funds. Feeder funds primarily dedicate a minimum of 90% of their holdings to a target fund while the remaining portion is allocated in cash. The respective target funds may engage in financial derivatives for efficient portfolio management as per BSP Circular 999. On the other hand, a fund-of-funds is as a consolidation of different funds as 90% of its assets are apportioned in more than one collective investment scheme. The emergence of a multi-class fund in 2014 enabled funds with different share classes to be integrated into one UITF given that they follow the same investment strategy. According to former BSP governor Amando M. Tetangco (Montecillo, 2014), the employment of multi-class funds is directed for operational efficiency and economies of scale for collective investments. Each class in the UITF has a corresponding NAV per unit which is computed and released daily. In 2015, the BSP's Monetary Board approved the introduction of UITFs with unit-paying features which provide a non-guaranteed stream of periodic income to investors. The fund shall primarily earn through the dividends and coupon payments received from the income-generating instruments. The trust entity governs the income distribution as indicated in the trust agreement. Preceding this regulatory reform, income generated from investments could only be collected upon redemption of the principal investment. With this amendment, a fund participant can cash in on his investment income on a regular basis, albeit without a fixed return. For investors looking for cash flow, this was a welcome addition to the array of UITFs. As UITF products grow in sophistication, the investing public benefits from the enhanced diversification and improved market infrastructure of trust entities.

Market penetration of UITF products had increased over the past decade with the expansion of the sector's trust assets. Based on the reports published by BSP's Office of the Supervisory Policy Development, UITFs' assets under management (AUM) stood at PHP 615.7 billion as of December 2018 – a significant increase from the PHP 31.4 billion reported by 12 trust entities in June 2005 (Figure 1). Despite the notable increase between the two periods, the industry has also experienced troughs in its expedition for capital market development. The decline of CTFs in 2005 to 2006 represented the migration of investors to other trust products available in the market. Before the phaseout of CTFs, global risk-off sentiment prompted panic withdrawals in May 2006, causing the descent of UITF assets and huge redemptions by the investing public. Total assets in the trust industry plummeted, resulting in negative growth of 3.2% by end-December 2006. The adversities encountered during the UITF meltdown prompted enhancements in the account opening process and training requirements of UITF personnel. Despite the global financial crisis in 2008, the trust industry posted a 4.9% growth in total trust assets, signifying a reversal from its performance in 2006. However, investments in UITFs contracted by 39.2% as investors opted for investment management accounts (IMAs) and trust and other fiduciary accounts (TOFAs).

In light of the market volatility of the last decade, the prominence of UITFs improved remarkably given the different product offerings ranging from money market funds, equity funds, fixed income funds, and balanced funds, and others. Universal and commercial banks had always dominated the market in terms of their UITF market penetration. However, there was a notable contraction in 2017 and 2018 by universal and commercial banks, attributable to the emergence and growth of IMAs with traditional time deposits as underlying assets since inflationary conditions led to higher local interest rates on deposits. Rapidly rising interest rates at the time ensured fixed returns on these accounts compared to UITFs, which held a mixed bag of low-yielding assets acquired long before. With the new rules on the establishment of trust corporations introduced in 2016, the exposure of non-bank financial institutions increased. Among the different UITF products in the market, BSP's Supervisory Policy and Research Department reported that money market funds remain the leading investment product, accounting for 63.4% of the total AUM of UITFs as of December 2018, indicating that the majority of UITF investors still favor conservative products.

In the Philippines, financial inclusion and financial awareness have long presented challenges obstructing demand for collective investment schemes such as UITFs, MFs and VULs. The BSP Financial Inclusion Survey in 2017 revealed that 22.5% of Filipino adults have financial investments – bulk of which is

Figure 1: AUM of UITFs



Source: BSP

in contributions to government and private insurance systems and home development mutual funds (HDMFs). The HDMF, more popularly known as the Pag-IBIG Fund, is a Philippine government-owned and controlled corporation under the Housing and Urban Development Coordinating Council responsible for the administration of the national savings program and affordable shelter financing for Filipinos employed by local and foreign-based employers as well as voluntary and self-employed members. Direct investments in equities, bonds, MFs and UITFs represented only 3% of their holdings. As outlined in the survey, the low investment penetration can be explained by unemployment, perceived high costs, and lack of awareness and necessity. As of June 2019, the total number of participants in UITFs was reported to be 249,534, which represents a mere 0.3% of the total working population at the end of 2019 as estimated by the Commission on Population. In an environment of financial innovation and digitization, misconceptions emanating from traditional mindsets discourage people from allocating their disposable earnings to productive investment outlets. Moreover, the capacity and willingness to invest can substantially deteriorate given inherent market and economic risks. Both fixed income and equity markets suffer periods of unstable and low returns leading generally conservative investors to shy away from them. Nevertheless, proper education, close regulatory supervision and expansion of financial channels offer the potential for the underserved and unbanked population to achieve economic and social progress through UTIFs and other financial investments.

The Insurance Industry

The insurance industry in the Philippines traces its roots to the late 1800s and early 1900s when insurance companies began to set up shop in the country. In 1914, to ensure proper regulation of the burgeoning insurance market, the Philippine Legislature enacted the Insurance Act, and the Insurance Division of the Bureau of Treasury was tasked to supervise the insurance business. By the 1940s, supervision was moved out of the Bureau of Treasury and attached to the Bureau of Banking. As the industry continued to grow, the government recognized the need to establish an independent office to oversee all matters relevant to the insurance industry. Therefore, in 1949, together with the opening of the Central Bank of the Philippines, the Bureau of Banking was renamed the Office of the Insurance Commissioner through Republic Act No. 275.

Then, in 1974, Presidential Decree No. 612 instituted the Insurance Code of the Philippines, superseding the Insurance Act. Presidential Decree No. 63 renamed the Office of the Insurance Commissioner as the IC, and Presidential Decree No. 1460 in 1976 consolidated all insurance laws into a single code – the Insurance Code of 1978. Much later, 2009, Republic Act No. 9829 paved the way for the creation of the Pre-Need Code of the Philippines, which mandated the IC to regulate and supervise all pre-need companies conducting business in the Philippines. Finally, Republic Act No. 10607 in 2013, also known as the Amended Insurance Code, signed into law revisions to the Code intended to further strengthen the Philippine insurance industry and to ensure the economic viability and financial stability of insurance companies operating in the Philippines.

The stated vision of the IC is to foster strong, sustainable, and globally competitive regulated entities to serve every Filipino. Its mission is to implement prudent and progressive regulatory and supervisory policies at par with international standards. The IC has likewise set forth the following objectives:

1) To promote growth and financial stability of insurance, pre-need and health maintenance organization (HMO) companies

2) To professionalize insurance, pre-

need and HMO services, and develop insurance, pre-need and HMO consciousness among the general populace

3) To establish a sound national insurance market

4) To safeguard the rights and interest of the insuring public, pre-need and HMO customers

Organizations have also been established to nurture the interests of the insurance industry. The Philippine Life Insurance Association (PLIA), was established to promote the growth of the life insurance industry, develop ethical norms for underwriting and management of life insurance, and contribute to the socio-economic development of the country. In addition, the Philippine Insurers and Reinsurers Association (PIRA), which represents the interests of the non-life insurance industry, directs its efforts towards promoting the general welfare of non-life insurance, surety, and professional reinsurance companies doing business in the Philippines and the general public consistent with what the law provides, and propagating the concept, principles and benefits of the non-life and surety business. These associations are meant to be the voice of their respective industries to the regulator and other stakeholders. They conduct training, workshops and conferences to professionalize and police their members.

In terms of market structure, as of end-2018 the industry was comprised of 91 licensed insurance companies: five composite insurance companies, 25 life insurance companies, 60 non-life insurance companies, and one reinsurance company. Of the total, 22 are considered foreign owned, while the remaining 69 are locally owned.

Total assets of these insurance companies at the end of 2018 were reported at PHP 1.47 trillion, with PHP 1.25 trillion in life insurance, PHP 219 billion in non-life, and PHP 13.9 billion in reinsurance companies. Among life insurance companies, PHP 640.7 billion is classified as traditional life assets, with PHP 613.4 billion classified as variable life assets.

The aggregate net worth of the country's insurance companies at end-2018 was PHP 292.8 billion, with life insurance companies worth PHP 214.2 billion, non-life insurance companies worth PHP 73.7 billion, and the reinsurance segment's net worth PHP 4.8 billion.

Life insurance companies generated total premiums of PHP 228.6 billion in 2018, a 13% increase from the previous year. Of this total, PHP 170.2 billion was from variable life policies, while PHP 58.4 billion was from traditional life policies. The 2018 premiums are 14% and 9% higher respectively, compared to 2017. Total benefits paid in 2018 stood at PHP 73.7 billion. Non-life insurance companies earned PHP 49.3 billion in total premiums in 2018, a 9% increase from the previous year.

A key challenge facing the Philippine insurance industry is the low penetration rate. Premium volume as a share of GDP stood at 1.63% in 2018, and has fluctuated between 1.56% and 1.75% since 2014. For comparison, the average insurance penetration rate in the Association of Southeast Asia Nations (ASEAN) region was 3.6% in 2017, with the greater Asian region average at 5.6%, and the global average at 6.1%. While this low penetration rate in the Philippines represents a large gap in terms of insurance protection in the country, it also presents significant growth opportunities for all stakeholders in the insurance industry. To this end, a common and continuing advocacy of regulators, industry organizations, and insurance companies is to promote financial literacy and educate the general populace on the importance of securing the appropriate insurance coverage as part of personal financial management.

Insurance companies are likewise pursuing innovations by harnessing digital technologies to enhance the customer experience from policy purchase, to policy maintenance and benefit claim. In terms of product development, one trend currently being observed is the emergence of insurance products that encourage customers to adopt a healthier way of living. This direction is aligned with the pursuit of health and wellness as a top priority across the demographic spectrum.

With respect to the financial markets, the IC has worked to craft regulations that are aimed to support insurance companies in managing their investment portfolios. In 2019, for example, the IC issued circulars setting forth amended guidelines for securities borrowing and lending (Circular Letter 2019-45), for investments in real estate investment funds (Circular Letter 2019-27), and for investments in infrastructure projects under the Philippine Development Plan (Circular Letter 2019-19, amending Circular Letter 2018-74). Moving forward, the IC is expected to sustain its efforts in promulgating capital market development.

Variable Universal Life Insurance

VUL insurance is a permanent life insurance policy with a savings component that permits the investment of the cash value to marketable securities. It offers living, disability, and death benefits to the insured if the investor contributes to the premium at a prearranged payment scheme. The premiums are commonly held for a period of five to twenty years. VULs were first introduced in the Philippines by a subsidiary of a British financial services conglomerate in 2002.

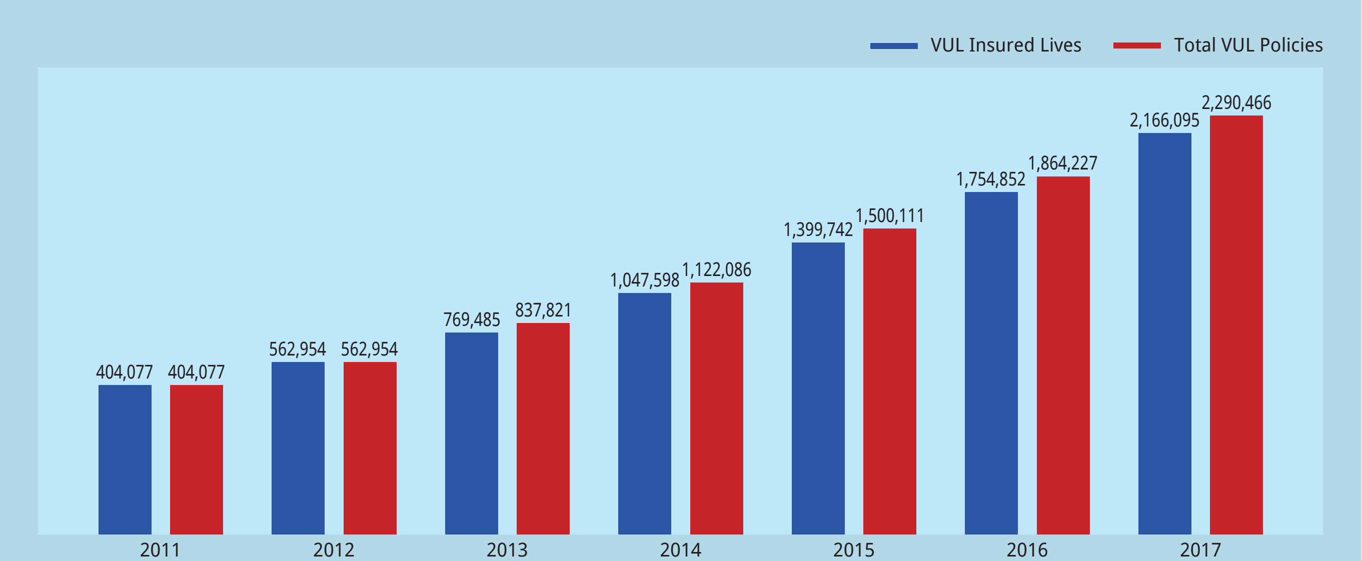
As mentioned above, the Insurance Code of 1978 consolidated all existing insurance provisions into a single code and provided for insurance companies to be regulated by the IC. VULs or variable contracts are discussed and defined in Title 10 of the Code as "any policy on either a group or an individual basis issued by an insurance company providing for benefits or other contractual payments thereunder to vary so as to reflect investment results of any segregated portfolio of investments or of a designated separate account in which sums received from such policies should be placed and accounted for separately from other investments and accounts". This code segregates VULs from other financial securities as defined in Securities Regulation Code and Investment Company Act and states that VULs are not subject to said Acts. In 2013, President Aquino signed RA 10607, otherwise known as the Amended Insurance Code, designed to strengthen the insurance industry and reinforce the previous code.

VULs have gained popularity among Filipinos in recent years. According to statistics from the IC, in 2017 the number of VUL policies was five times the number in 2011 and comprised about 44% of all insurance policies in force (Figure 2). Over the same period, the number of VUL agents grew from around 8,000 to over 40,000, or almost half of the entire pool of insurance agents. By 2018, approximately 70% of all policies sold in the insurance industry were VUL policies.

VULs lag slightly behind UITFs in terms of net assets but not in terms of growth and number of policy owners. Of the three CIS in the market, VULs have had spectacular growth, with a 19% cumulative annual growth rate (CAGR) in net assets over the five years ending in 2018 (Figure 3). The growth in net assets of the VUL industry is partly attributable to the nature and frequency of contributions from policy owners. Because a VUL requires a periodic premium payment to remain in effect, the investment portion of the VUL is also paid periodically. This is in stark comparison to MFs and UITFs where the challenge is to help investors build the habit of periodically setting aside money for their investments. VULs are also easier to market in comparison to MFs and UITFs, and there are significantly more VUL agents than there are certified investment solicitors. Based on current trends, we project that the total number of VUL policy holders in 2018 is over 2.9 million compared to the cumulative 800,000 or so investment accounts for MFs and UITFs.

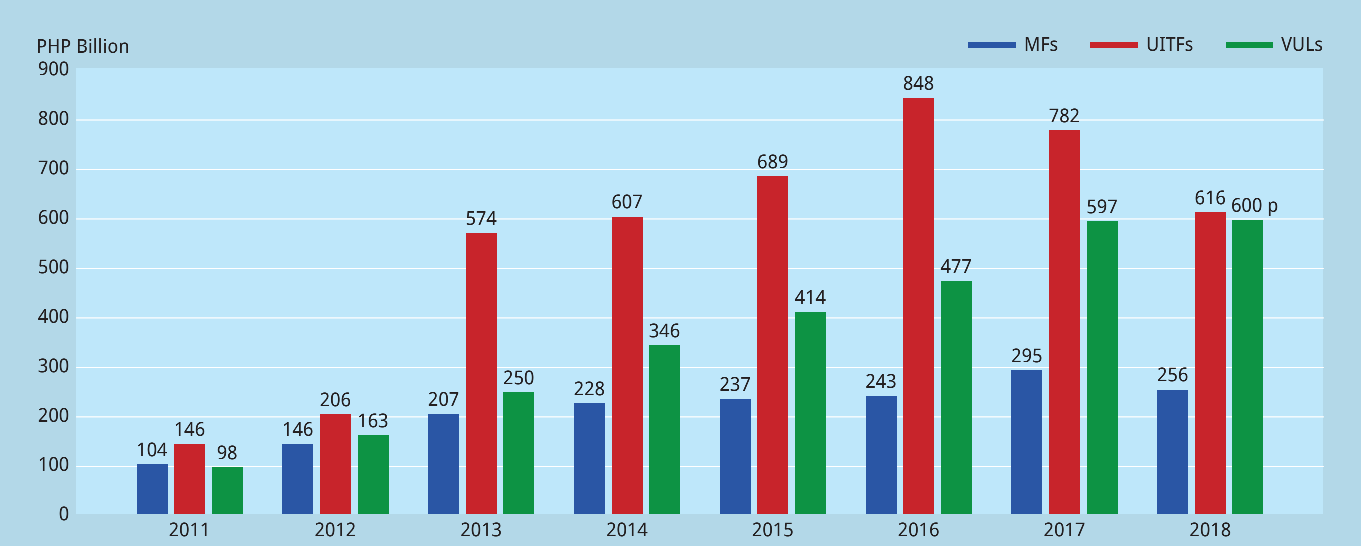
Just as the MF and UITF industries are contending with a lack of financial awareness, the VUL and insurance industry in general are battling with the lack of insurance consciousness in the Philippines. According to the PIRA Executive Director, Michael Rellosa, Filipinos tend to take an insurance policy only when

Figure 2: Number of VUL Policies and Insured Lives



Source: IC

Figure 3: AUM of CIS



Note: p – preliminary data.
Sources: PIFA, BSP, IC.

it is mandated or required for a loan. Generally, Filipinos see minimum value to having an insurance policy. Based on statistics from the IC, approximately 34.5 million people or 33% of the Philippine population has some form of life insurance coverage. Rellosa points out that this low penetration rate is unfortunate considering that the Philippines is prone to natural disasters such as typhoons and earthquakes.

Ongoing Initiatives and Future Outlook for Investment Funds in the Philippines

The BSP has initiated structural reforms and educational initiatives to strengthen financial literacy and deepen the capital markets. Firstly, the Economic and Learning Program of the BSP convenes all stakeholders in the system and reinforces financial education through public information campaigns and expos. Different programs are devoted to target audiences which are meant to strengthen financial literacy in response to prevailing market issues. Secondly, boosting investment demand comes with the responsibility to launch relevant products. In 2019, Real Estate Investment Trusts (REITs) became the most awaited issuance since the proclamation of Republic Act No. 9856 in 2009. REITs are publicly listed entities with revenue-generating properties such as offices, shopping centers, and hotels. They provide attractive returns to investors as companies engaged in REITs are mandated to distribute 90% of their retained earnings. However, the Implementing Rules and Regulations is still to be released.

Moreover, the expanding digital landscape in the country further complements the young and tech-savvy population. Online platforms permit users to invest as little as PHP 50, encouraging financial empowerment through sachet investing. Strengthening the push for financial inclusion, the SEC in Memorandum Circular No. 16 Series of 2018, otherwise known as the 2018 Guidelines on Anti-Money Laundering and Combating the Financing of Terrorism for SEC Covered Institutions, allows covered institutions to conduct a reduced Know-Your-Customer (KYC) due diligence process for low-risk customers. This ultimately reduces the hurdles for low risk clients to invest in pooled funds while ensuring that financial products are not used for money laundering operations. Additionally, the enlargement of the country's investor base will be driven by the upcoming relaunch of the Personal Equity and Retirement Account (PERA). Account opening and investing in PERAs are currently being aligned with the online processes implemented for regular UITFs, observing the same ease and flexibility. Accorded with tax incentives and prospects for capital growth, PERA accounts are not only designed for people nearing retirement but are also steered to the young population for timely financial planning.

With numerous investment products that cater to diverse investment needs, proper information dissemination is imperative for the sustained expansion of investment penetration. A bill for the establishment of trust agents is in the latter stages of finalization. The proposed legislation allows financial institutions, through their agents, to distribute and sell the respective products of their partners. Trust agents are akin to the certified investment solicitors of the SEC and the insurance agents of the IC.

The life insurance industry has grown phenomenally over the past years as more and more Filipinos are taking life insurance policies. Driven primarily by VUL premium payments, life insurance density, or the average spend of each Filipino on life insurance, has been growing by a little over 9% over the five years ending in 2017. Over the same period, the number of VUL policy owners has been growing by 32% annually. Furthermore, Moody's Investor Service noted that life insurance in the Asia Pacific region is backed by strong demand and a growing middle class. However, the report recommended the adoption of technology in the business models of insurers in order to remain competitive in the industry. In line with this, we believe the annual spend on insurance per capita will increase considering that the IC released Circular Letter No. 2018-07 in 2018 allowing mobile phone applications to sell insurance products. This opens the gates for insurance companies and tech companies to further expand the reach of the industry to those with limited access to traditional insurance channels.

Another initiative that will affect all pooled investments in the Philippines is the CIS Law. The CIS Law is being pushed in hopes of promoting the growth of pooled investments and spurring capital market development. The proposed law has provisions to widen the access of everyday Filipinos to securities ownership while ensuring that potential investors remain protected. Investor protection is enhanced as the CIS Law has provisions for strengthening governance requirements and improving the transparency of all CIS. Currently, there is an issue of regulatory arbitrage among the various CIS spanning the trust, MF and insurance industries due to different regulating authorities imposing different governing laws to the CIS and the entities they oversee. The CIS Law addresses this by establishing a harmonized regulatory and tax framework for all CIS. In doing so, proponents of the law hope to create an even playing field in the industry and promote a more competitive environment among CIS.

Conclusion

Despite massive developments, the Philippines' financial market still has a long way to go to catch up with its major Asian neighbors. While it is vibrant and robust, the market still lacks depth and breadth. The industry must confront the extensive effort necessary to service the currently underserved and unbanked segments. We believe that this effort – pursued along with the promotion of financial inclusion, digitalization, and proper selling by market constituents – will fortify investment demand, sustain investment confidence, and realize pervasive inclusivity. It will be a challenge to continue these proactive measures as the market evolves under promising demographic changes. Moreover, reforms must be implemented promptly and effectively in order to promote optimal growth of the Philippine economy as a whole.

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FUND MANAGERS ASSOCIATION OF THE PHILIPPINES

The Fund Managers Association of the Philippines (FMAP) was established in 1997 as an organization of equity and fixed income fund managers with the primary goal of fostering the development of the Philippine capital markets, particularly the investment management industry.

FMAP aims to promote professional fund management that adheres to best global practices and high ethical standards. It actively participates in dialogues with regulatory agencies in the formulation of policies and implementation of reforms to deepen the domestic capital market. We also uphold our corporate social responsibility through various activities to support our less fortunate citizens.

FMAP now has a membership base of 317 individual-members from 52 institutions comprising banks, insurance companies, mutual funds, pension funds, schools and domestic corporations.