Life Insurance Association

Your guide to

Participating Policies

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The information in the Guide is of a general nature and may not apply to every situation or to your own personal circumstances. This Guide should not be regarded as a substitute for seeking legal or financial advice on any specific issue.

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This Guide provides you (the prospective buyer) with general information about how a participating life insurance policy (participating policy) works. It gives you the information you should know before you purchase any participating policy or a "with profits" policy. Your adviser should explain the key features of the participating policy to you.

What is a participating policy?

Key features of a participating policy are:

- Premiums are pooled with those of other participating policies in a specially designated 'participating fund'.
- The fund is invested in a range of assets such as government and corporate bonds, equities, property and cash. The proportion invested in each type of asset (often referred to as the investment mix) may change over time, in line with the insurer's investment strategy.
- The assets are used to pay benefits to you and other policyholders of the participating fund and to meet the expenses incurred in running the participating fund.
- In addition to the guaranteed benefits provided by the policy, non-guaranteed benefits in the form of bonuses will be added to your policy.
- Bonuses are determined on an annual basis and most commonly expressed in the form of an addition to the sum assured. (Please refer to the section on "What are the types of non-guaranteed bonuses" for an example of how bonuses are added to sum assured.) Once the bonuses have been added to your policy, the insurer cannot later reduce them or take them away.

What is the aim of a participating policy?

The aim of a participating policy is to provide stable medium to long-term returns through the combination of guaranteed benefits and non-guaranteed bonuses.

Although bonuses are not guaranteed, insurers generally try to avoid large fluctuations in the bonus declared from year to year. Insurers aim to achieve this stability by smoothing bonuses over time. This means that bonuses may be held back in years when the performance of the fund has been good so that they can be maintained when conditions are less favourable. The net effect is that bonuses will not necessarily follow the rises and falls in the investment markets. In addition, when the future outlook of fund performance continues to be unfavourable, it may be necessary for insurers to reduce the estimates of future bonuses accordingly.

Participating funds can invest in a range of assets, including equities, in search of potentially higher returns. This freedom to adopt a broadly based investment strategy arises from:

a) the long term investment horizons of the fund mean that the risk of short-term fluctuations in investment conditions pose less of a threat, and
b) the fact that the investment policy does not have to be as conservative as would be the case if *all* of the benefits were guaranteed.

How does this differ from investment-linked policies?

Unlike investment-linked policies ("ILP"), where the assets for each ILP policyholder are separately identifiable in the form of units held, assets are not separately maintained for each participating policyholders.

The smoothing of bonuses means that the returns from your policy will not necessarily reflect volatility in investment markets. By contrast, the returns under investment-linked policies will be more directly linked to the value of the underlying assets.

A part of the cash benefits under a participating policy will be guaranteed. Under an investment-linked policy, cash benefits depend upon the value of investments allocated to the policy and are not guaranteed.

What will affect the non-guaranteed bonuses that I will receive?

The level of non-guaranteed bonuses depends on the value of the assets backing the policies, which in turn depends, amongst other things, on the following key factors:

- Investment performance.
- The level of expenses incurred by or allocated to the participating fund.
- The amounts paid out to meet death or sickness claims on policies in the participating fund.

Clearly, if the investments have been performing well and claims are less than expected, there will be more funds available for bonus additions.

How is my bonus determined?

At each year-end, the appointed actuary (as required under the Insurance Act) will conduct a detailed analysis of the performance of the fund and make recommendations of:

a) the amount of bonuses to be allocated, and
b) the amount to be set aside for the future bonuses.

The bonuses that are declared will be approved by the board of directors of the insurer, taking into account the appointed actuary's recommendations.

When determining the bonuses to be declared, the insurer must treat policyholders from all groups of participating policies fairly and avoid any practice that favours certain groups at the expense of others.

The insurer must also take care that bonuses which are allocated can be supported by the fund. This is to ensure the continued financial soundness of the fund.

What are the types of non-guaranteed bonuses?

Two common types of non-guaranteed bonuses that may be added to your policy are:

- Reversionary bonuses – These are added regularly (e.g. annually) to your policy. The reversionary bonus is, in effect, an addition to the sum assured under your policy.

Example
If the reversionary bonus declared is $10 per $1,000 sum assured, this means that the sum assured under your policy will be increased by $10 for every $1,000 of the existing sum assured.

- Terminal bonuses – These are added on top of the regular reversionary bonuses when the policy is terminated. This may be when you surrender the policy, make a claim, or when the policy matures.

Some participating policies provide non-guaranteed benefits in the form of cash dividends rather than additions to the sum assured. However, where this document refers to 'bonuses' this is intended to include all forms of non-guaranteed benefits, including cash dividends.

This guide only provides general information on the bonus structure. It may vary from policy to policy.

You can find more about the types of bonuses being offered in the **Product Summary**. The **Product Summary** describes the features of the particular policy you intend to buy.

What if I leave the plan early?

Buying a life insurance policy is a long-term commitment. Early termination of the policy usually involves high costs and the surrender value may be less than total premiums paid.

Some insurance policies have clauses that allow the insurers to reduce surrender values when the market falls sharply. This is to make sure that those who surrender do not take an unfair share of the assets at the expense of the remaining policyholders.

You can find out about the terms of early surrender in the **Product Summary**.

What information should I receive?

You will receive the following three sales documents from your adviser before you purchase a participating policy. It is important to read these documents and understand the product before making a purchase:

- Your Guide to Life Insurance;
- A Product Summary; and
- A Benefit Illustration.

After you have bought the participating policy, you will receive an Annual Bonus Update. This will include information about:

- The performance of the participating fund and its future outlook.
- The bonuses allocated (if any) to your policy for that year.

You will receive an update of the projected total maturity value for endowment policy (or revised total surrender value for whole life policy) whenever there is a change in the bonuses declared.

You can also request a full benefit illustration showing illustrations of future non-guaranteed benefits based on the insurer's latest best estimate of the future performance of the participating fund.

What are the key safeguards protecting the interests of participating policyholders?

Key requirements include:

- The profit that can be transferred to shareholders is limited to a maximum of 1/9th of the value of bonuses allocated to participating policyholders. This means for every $9 distributed to policyholders, a maximum of $1 is distributable to shareholders. This aligns shareholders' profit objectives to policyholders' interests and prevents excessive distribution of profits to shareholders.

- Any shortfall in the assets required to meet guaranteed benefits has to be met by shareholders. This means that the insurer has the obligation to pay the guaranteed benefits even if the participating fund were to perform badly.

∑ Insurers selling participating policies are required to have in place an internal policy on management of participating fund business which is approved and reviewed regularly by the board of directors.

Dispute resolution

If you have a complaint about your insurance policy, you should first refer the matter to your insurer or the insurance representative who sold you the insurance policy. However, if you fail to reach an agreement, the Financial Industry Disputes Resolution Centre (FIDReC) provides an independent alternative dispute resolution scheme.

You must lodge your complaint with FIDReC within six months from the date when you failed to reach an agreement with your insurer.

FIDReC is staffed by full-time employees who are familiar with insurance law and practice. FIDReC aims to settle disputes in a fair and cost-efficient way. This should hopefully mean you avoid time-consuming, stressful and costly legal proceedings.

At present, FIDReC covers the following:

- For claims between insured persons and insurance companies: up to S$100,000 per claim
- For other claims (including disputes between banks and consumers, capital market disputes, third party claims and market conduct claims): up to S$50,000 per claim

FIDReC's rulings are final and binding on the financial institution, but not on you. You may choose to accept or reject FIDReC's decision. If you are unhappy with the ruling by FIDReC, you can choose to pursue legal action or other options such as approaching the Consumers Association of Singapore, the Singapore Mediation Centre or the Small Claims Tribunal. However, if you do accept FIDReC's ruling, you may lose your right to proceed with legal action against the financial institution.

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