

Your guide to
**Participating
Policies**
2020

moneysense

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This Guide has been translated into Chinese. In case of discrepancies between the English and Chinese version, the English version shall prevail.

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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. For products sold with financial advice, your adviser should also have explained the key features of the participating policy when recommending it to you.

I. WHAT IS A PARTICIPATING POLICY?

Participating policies are life insurance policies which provide both guaranteed and non-guaranteed benefits. Participating policyholders participate or share in the profits of the participating fund of the insurer. The performance of the participating fund is affected by the investment return of the fund, the claims experience of the fund and the level of expenses incurred by the fund. These in turn affect the non-guaranteed benefits payable to you.

Key features of a participating policy are:

- Premiums are pooled with those of other participating policies in a specially designated ‘participating fund’.
- The fund invests in a range of assets to generate an investment return. The assets of the fund can be invested in government and corporate bonds, equities, property and cash. The proportion invested in each asset class (often referred to as the investment mix) may change over time, as determined by the insurer. The fund may use derivatives for hedging or efficient portfolio management.
- The participating fund pays benefits to the policyholders of the fund and the expenses of running the participating fund.
- It has guaranteed benefits and non-guaranteed benefits in the form of bonuses that will be added to your policy.
- Non-guaranteed bonuses are determined on an annual basis and most commonly expressed in the form of an addition to the sum assured. Once the non-guaranteed bonuses have been added to your policy, the insurer cannot subsequently reduce them or take them away on claim. When non-guaranteed bonuses are declared on participating policies, the insurer may receive a distribution from the participating fund.

II. 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.

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; 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.

When fund performance has been unfavourable and the outlook remains pessimistic, it may be necessary for insurers to reduce future non-guaranteed bonuses on the participating policies accordingly.

III. WHAT ARE THE TYPES OF NON-GUARANTEED BONUSES?

Two common types of non-guaranteed bonuses are:

- **Reversionary bonuses**

These are added regularly (e.g. annually) to your policy. The reversionary bonus, once added, will form part of the guaranteed benefits of your policy. They are usually payable in full when a claim is paid or when the policy matures. However, when you surrender the policy or the reversionary bonuses, only a proportion of the reversionary bonuses will be payable since you did not hold your policy until a claim arises or until it matures.

- **Terminal bonuses**

These may be payable when you surrender the policy, when a claim is paid or when the policy matures. Terminal bonuses are separate from any reversionary bonuses.

Some participating policies provide non-guaranteed benefits in the form of cash dividends which are paid out on declaration. However, where this document refers to 'bonuses' the term includes all forms of non-guaranteed benefits, including cash dividends.

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

You can find out more about the types of non-guaranteed bonuses being offered in the **Product Summary**.

IV. HOW ARE MY NON-GUARANTEED BONUSES DETERMINED?

Every year, the insurer's appointed actuary will conduct a detailed analysis of the performance of the fund and make recommendations on the amount of non-guaranteed bonuses to be allocated.

The appointed actuary must ensure that non-guaranteed bonuses which are allocated and hence guaranteed can be supported by the fund. This is to ensure the continued financial soundness of the fund. In addition, the non-guaranteed bonuses recommended must be equitable to all participating policyholders.

The appointed actuary will present his or her recommendations to the board of directors of the insurer for approval. Once approved, the non-guaranteed bonuses for that year will be declared on the policies.

Insurers generally try to avoid large fluctuations in the non-guaranteed bonuses from year to year by smoothing bonuses over time. This means that non-guaranteed bonuses may not be immediately adjusted in years when the performance of the fund has been good. This creates a buffer which allows the insurer to avoid significant changes to the non-guaranteed bonuses when conditions are less favourable. The net effect is that the amount of non-guaranteed bonuses may not necessarily follow the short-term ups and downs in the investment markets.

V. WHAT WILL AFFECT THE NON-GUARANTEED BONUSES THAT I WILL RECEIVE?

The amount of non-guaranteed bonuses you receive depends on:

- Actual value of the assets of the participating fund
- Investment performance and future outlook of the participating fund
- Level of expenses incurred by the participating fund

- Amounts paid out to meet insurance claims such as death, sickness, annuities, surrenders and maturity payments on policies in the participating fund
- Financial condition of the participating fund

If the investments perform better than expected and insurance claims are less than expected, there will be more assets available for non-guaranteed bonus allocation.

Similarly, in the event that the outlook for fund performance is likely to be unfavorable for a prolonged period, insurers may reduce the future non-guaranteed bonuses.

The amount of non-guaranteed bonuses declared will impact the value you received on surrender, claims or maturity (if applicable).

VI. WHAT ARE THE KEY SAFEGUARDS TO PROTECT THE INTERESTS OF PARTICIPATING POLICYHOLDERS?

The safeguards include:

- The distribution of profit to shareholders is limited to a maximum of 1/9th of the value of non-guaranteed bonuses allocated to participating policyholders. This means for every \$9 of non-guaranteed bonuses allocated 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.
- In determining the non-guaranteed bonuses, the appointed actuary is guided by regulations and professional standards to consider equity to policyholders.
- 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 funds 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.

- The Monetary Authority of Singapore (MAS) requires insurers to, among others, manage the participating fund in a prudent manner and safeguard the assets of the participating fund.
- There is a Policy Owners Protection Fund. Insurers are required to make payments to this Fund such that policy owners have a certain level of protection in the event that an insurer is no longer able to operate due to business failure. For more information on the extent of protection provided, please contact your insurer.

VII. HOW DO PARTICIPATING POLICIES DIFFER FROM INVESTMENT-LINKED POLICIES?

Unlike investment-linked policies ("ILP"), where the policy value belonging to each ILP policyholder is separately identifiable in the form of units held and the prevailing prices of these units are published on a regular basis, assets in the participating fund are not separately maintained for each participating policyholder.

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

A part of the surrender value under a participating policy will be guaranteed. Under an ILP, the surrender value typically depends on the prevailing value of investments allocated to the policy which is not guaranteed.

VIII. WHAT INFORMATION SHOULD I RECEIVE AT THE POINT OF PURCHASE AND THERE AFTER?

You will receive the following three sales documents from your adviser or insurer 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 Policy Illustration

Your Guide to Life Insurance describes the various types of life insurance products and distribution channels. The Product Summary highlights the key benefits and features of the product while the Policy Illustration illustrates the benefits and charges of the product based on your profile.

In illustrating the benefits and charges of the product, the Policy Illustration uses two Projected Investment Rates of Return. These two Projected Investment Rates of Return in the Policy Illustration are **purely for illustrative purposes**; they do not represent upper and lower limits on the investment performance of the participating fund and should not be regarded as the projected return on your policy upon surrender, maturity or claim.

The actual return on your policy will vary according to the actual performance of the participating fund, as described in the section 'What will affect the non-guaranteed bonuses that I will receive?'

After you have bought the participating policy, you will receive a yearly update. This will include information about:

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

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

You can also request for a Policy Illustration showing illustrations of future non-guaranteed bonuses based on the projected performance of the participating fund.

IX. WHAT IF I SURRENDER THE PARTICIPATING POLICY EARLY?

Buying a life insurance policy can be a long-term commitment. There is usually a high surrender value charge if you terminate the policy early especially in the first few years of the policy term. You may lose all or nearly all of the total premiums paid.

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

X. DISPUTE RESOLUTION

If you have a complaint about your insurance policy, you should first refer the matter to your insurer or the financial advisory representative who sold you the insurance policy. However, if you fail to reach an agreement, the Financial Industry Disputes Resolution Centre Ltd (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, there is no claim limit for mediation at FIDReC, but there is a limit of up to S\$150,000 per claim for adjudications.

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 or the Singapore Mediation Centre. 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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