HKFI GUIDANCE NOTE ON ILAS ILLUSTRATION DOCUMENT

(I) Objective

The objective of this Guidance Note is to ensure that there is more consistency of approach in the illustration documents for ILAS policies, to ensure that customers receive proper information and disclosure and that the rates of illustration are appropriate to the current investment environment.

(II) Background

The contents of this Guidance Note have been created by the Life Insurance Council if the HKFI. Office of the Commissioner of Insurance and the Securities and Futures Commission, have been consulted about the contents of this Guidance Note.

(III) Guideline

Insurers have the choice of one of the two options below to illustrate the assumed rates of return:

1) four assumed rates of return for illustration, 0%, 3%, 6% and 9% on two pages with surrender value and death benefit shown on first and second page respectively, and
2) three assumed rates of return for illustration, 0%, 3% and 6% on one page with both surrender value and death benefit shown on the same page.

For both options, other than the 0% assumed rate of return, all rates of return are maximum rates and insurers can choose to illustrate lower rates. For further details regarding the above options, please refer to the sample templates attached in appendix A and B.

The illustration is prepared so that it includes all policy level charges but not the fund management charges. Here, the fund management charges are defined as solely the charges charged by fund managers.

Any charges applied by insurers in the form of fund management charges should be reflected through the numerical illustration no matter whether the charge is deducted through unit deduction or the charge is reflected through its unit price calculation (i.e. under the circumstance of “mirror fund”). For example, if there is a fund management charges applied by insurers either directly or in the form of “mirror fund”, above charges should be part of the numerical illustration e.g. if there is a 1% fund management charge accruing to the insurer and a 1.5% fund management charge accruing to the fund house then the expectation is that the numerical illustration will include the 1% charge mentioned above and the 1.5% fund management charge accruing to the fund house will be mentioned in the notes to the illustration.

Since it is possible to have zero policy value in a low investment yield scenario and only positive policy values in the high investment yield scenarios, a clear statement should be in place to remind policyholders regarding this situation like:

"Under the projection at x% investment return, your policy will remain in force up to an attained age of xx of the individual insured. The policy will terminate afterwards." Please kindly note that above statement should cover the respective 0%, 3%, 6% and 9% investment return scenarios if applicable.

For example, assume that the projected policy value will become zero when the insured reaches attained age 58 and 67 under the assumed rates of return at 0% and 3% respectively. Below reminder statement will be in place in the illustration.

"Under the projection at 0% and 3% investment return, your policy will remain in force up to an attained age of 57 and 66 of the individual insured respectively. The policy will terminate afterwards. Your policy may also terminate under other adverse investment scenarios. If the actual investment return is below the above projected investment return, the policy may terminate earlier than above attained age(s). You could lose all your premiums paid and benefits accrued if any condition of automatic early termination is triggered."

Under above example, 6% and 9% investment return is not applicable since the projected policy value will not become zero before the end of the illustration period.

The projected surrender values should be shown as at the end of each of the first five years of the contract, and for every fifth year thereafter until maturity or the end of policy whichever is applicable, after deduction of all relevant charges as described in the above approach. The number of policy year should not be illustrated higher than customer's age at one-hundred (100). Besides, the last few lines should be illustrated by "at age 90", "at age 95" and "at age 100" for the better understanding of customers.

The declaration in the notes should include reference to the fact that the fund management charges levied by the fund houses are not included in the illustration. Hence, the gross return required is higher (see example for the standard wording).

A warning statement is required alerting the proposer that early surrender or early premium discontinuance may result in significant loss. The standard wording for this is shown in the example illustration.

Insurers will be required to prepare an illustration reflecting the particulars of the customer (rather than using a standard illustration for all customers). The particulars of the customer should include but not limited to age, gender, target product, target premium amount, payment term and currency.

Insurers should present the illustration document in a font (i.e. typeface and size) that is easy to read and legible.

The principles and intent in this guideline should apply towards all pages of the benefit illustration.

The Appointed Actuary should be responsible for the accuracy of the calculations and the preparation of the illustration so that the presentation of the illustration will not mislead the customers.

(IV) Effective Date

Insurers which sell ILAS products are required to implement this Guidance Note no later than 1st January 2015. Early adoption before the effective date is highly recommended.

Questions regarding the interpretation of this Guidance Note should be addressed to the HKFI.

Information to be disclosed in the Illustration Document

Illustration of Surrender Values and Death Benefits for:

Name of Product: [Name of Product]

Name of Insurance Company: [Name of Insurance Company]

Name of Applicant: [Name of Applicant]

THE ASSUMED RATES USED BELOW ARE FOR ILLUSTRATIVE PURPOSES. THEY ARE NEITHER GUARANTEED NOR BASED ON PAST PERFORMANCE. THE ACTUAL RETURN MAY BE DIFFERENT!

IMPORTANT:

THIS IS A SUMMARY ILLUSTRATION OF THE SURRENDER VALUES AND DEATH BENEFITS (SHOWN ON THE FOLLOWING PAGE) OF [NAME OF PRODUCT]. IT IS INTENDED TO SHOW THE IMPACT OF FEES AND CHARGES ON SURRENDER VALUES AND DEATH BENEFITS BASED ON THE ASSUMPTIONS STATED BELOW AND IN NO WAY AFFECTS THE TERMS OF CONDITIONS STATED IN THE POLICY DOCUMENT.

Contract Term: [Actual Contract Term]

[Premium Payment Term:] [(if different from Actual Contract Term)]

Premium: [Actual Premium amount]

Assumed Rate of Return: Illustrated at 0%, [3%], [6%] and [9%] p.a.[i]

Projected Surrender Values for a [Regular/Single] Premium [Name of Product] with Contributions of [$ XXX] for [XXX Periods]					
Number of Years after Policy Issuance	Total Premium Paid since Start of Policy	Assuming Net Rate of Return of 0% p.a.*	Assuming Net Rate of Return of [3%] p.a.*	Assuming Net Rate of Return of [6%] p.a.*	Assuming Net Rate of Return of [9%] p.a.*
1					
2					
3					
4					
5					
10					
XX					

Declaration
I confirm having read and understood the information provided in this illustration and received the principal brochure.
Signed & dated:___________________________
[Applicant's Full Name in Printed Form]

[i] These assumed rates of return shall comply with the guidelines issued from time to time by the Life Insurance Council of the Hong Kong Federation of Insurers.

(Effective no later than 1st January 2015)

Projected Death Benefits for a [Regular/Single] Premium [Name of Product] with Contributions of [$ XXX] for [XXX Periods]					
Number of Years after Policy Issuance	Total Premium Paid since Start of Policy	Assuming Net Rate of Return of 0% p.a.*	Assuming Net Rate of Return of [3%] p.a.*	Assuming Net Rate of Return of [6%] p.a.*	Assuming Net Rate of Return of [9%] p.a.*
1					
2					
3					
4					
5					
10					
XX					

* The Surrender Value and Death Benefit shown in above Summary Illustration have been calculated based on the net rates of return. The net rates of return are net of fund charges levied by fund houses which vary with different funds. Assuming the fund charges are [1.50%] p.a., the gross rates of return on the underlying assets of the funds used in this Summary Illustration are therefore [1.50%] p.a., [4.50%] p.a., [7.50%] p.a. and [10.50%] p.a. respectively. For details of fund charges please refer to the offering documents of the funds. Please note that this illustration might not be relevant should you subsequently switch funds. Please kindly refer to your advisor for the further details. If you select a money market fund or a fixed income fund, then above returns in the growth scenarios would be considered high in many cases and unlikely to be achieved if low interest rate environment persists. You are strongly encouraged to speak to your financial adviser who could provide further information on these funds - both for your initial fund selection and subsequently.

[Under the assumed rate of return at 0% [and b%] p.a., your policy will remain in force up to an attained age of x [and y] of the individual insured respectively. The policy will terminate afterwards. Your policy may also terminate under other adverse investment scenarios. If the actual investment return is below the above assumed rate of return, the policy may terminate earlier than above attained age(s). You could lose all your premiums paid and benefits accrued if any condition of automatic early termination is triggered.]

Warning: You should only invest in this product if you intend to pay the premium for the whole of your chosen premium payment term. Should you terminate this product early or cease paying premiums early, you may suffer a significant loss.

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Signed & dated:___________________________
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(Effective no later than 1st January 2015)

Appendix B

Information to be disclosed in the Illustration Document

Illustration of Surrender Values and Death Benefits for:

Name of Product: [Name of Product]
Name of Insurance Company: [Name of Insurance Company]
Name of Applicant: [Name of Applicant]

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IMPORTANT:

THIS IS A SUMMARY ILLUSTRATION OF THE SURRENDER VALUES AND DEATH BENEFITS OF [NAME OF PRODUCT]. IT IS INTENDED TO SHOW THE IMPACT OF FEES AND CHARGES ON SURRENDER VALUES AND DEATH BENEFITS BASED ON THE ASSUMPTIONS STATED BELOW AND IN NO WAY AFFECTS THE TERMS OF CONDITIONS STATED IN THE POLICY DOCUMENT.

Contract Term: [Actual Contract Term]
[Premium Payment Term:] [(if different from Actual Contract Term)]
Premium: [Actual Premium amount]
Assumed Rate of Return: Illustrated at 0%, [3%] and [6%] p.a.[i]

Projected Surrender Values and Death Benefits for a [Regular/Single] Premium [Name of Product] with Contributions of [$ XXX] for [XXX Periods]							
Number of Years after Policy Issuance	Total Premium Paid since Start of Policy	Assuming Net Rate of Return of 0% p.a.*		Assuming Net Rate of Return of [3%] p.a.*		Assuming Net Rate of Return of [6%] p.a.*	
		Surrender Value	Death Benefit	Surrender Value	Death Benefit	Surrender Value	Death Benefit
1							
2							
3							
4							
5							
10							
XX							

* The Surrender Value and Death Benefit shown in above Summary Illustration have been calculated based on the net rates of return. The net rates of return are net of fund charges levied by fund houses which vary with different funds. Assuming the fund charges are [1.50%] p.a., the gross rates of return on the underlying assets of the funds used in this Summary Illustration are therefore [1.50%] p.a., [4.50%] p.a. and [7.50%] p.a. respectively. For details of fund charges please refer to the offering documents of the funds. Please note that this illustration might not be relevant should you subsequently switch funds. Please kindly refer to your advisor for the further details. If you select a money market fund or a fixed income fund, then above returns in the growth scenarios would be considered high in many cases and unlikely to be achieved if low interest rate environment persists. You are strongly encouraged to speak to your financial adviser who could provide further information on these funds - both for your initial fund selection and subsequently.

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