

## Questions and Answers on 'Guidance Note on Illustration Document for Participating Policies' and Guidance Note on Illustration Document for Universal Life (Non-Linked) Policies

**Disclaimer: The list of questions and answers are for reference only. Members are advised to consult their own legal counsel as necessary.**

### I. Requirements

**Q** 1. For certain short-term saving plan where the only non-guaranteed element is the interest rate accumulation, is it required to have projection under optimistic and pessimistic scenarios?

**A** 1. The template for participating product applies to any product involving non-guaranteed element, including products providing guaranteed benefits and these benefits could be deposited with insurers for accumulation with non-guaranteed interest rate. In this connection, projection under optimistic and pessimistic scenarios for non-guaranteed element are required.

**Q** 2. For policies with policy loan facility, should policy loan projection be included in the illustration?

**A** 2. Policy values illustration should be projected as if there is no policy loan. Nonetheless, insurers should alert policyholders to lapsation risk due to policy loan exceeding policy value and expected timeline (in years) leading to policy lapsation based on the assumptions at that time under the following circumstances:

- when supplementary illustration on basic plan with policy loan is provided;
- when policyholder applies for policy loan ;
- as soon as practicable, after first drawn down due to automatic policy loan;
- on regular policy statement where policy loan has been drawn down.

In addition, insurers should provide a re-projection of policy loan amount upon request, and policyholders should be informed of such right.

In light of the time needed for system change, OCI agreed to have no-action period in respect of provision of expected timeline and re-projection of policy loan amount until 1 July 2017 to allow insurers additional preparation time. Nonetheless, insurers are required to make best effort to comply with the requirements as soon as practicable.

**Q** 3. Are insurers allowed to show supplementary illustrations, such as withdrawal or premium offset?

**A** 3. Insurers are allowed to show supplementary illustrations on optional product feature (except premium offset where the requirement under section 4.1.3 of Appendix I to the GN16 applies). Unless otherwise stated, insurers should follow the requirements under standard template for supplementary illustration, in particular separation of guaranteed and non-guaranteed amounts with column clearly labeled as "guaranteed" and "non-guaranteed" to indicate the nature of the amounts. For the avoidance of doubt, it is not required to have customer's signature on supplementary illustration.

Supplementary illustration can be shown as follows:

- (a) Insurers can provide supplementary illustration on basic plan with policy loan to customers.
- (b) In illustrating premium holiday for universal life products, insurers should follow the requirements under standard template where such projections under guaranteed/conservative basis and current assumed basis should be provided.
- (c) For automatic indexation of sum assured, if this is an optional feature that policyholders can choose to exercise or not, the illustration requirements should follow paragraph (d) below. Otherwise, such indexation should be treated as a product feature of a basic plan.
- (d) For products offering optional product features: in case of participating products, current assumed basis, pessimistic and optimistic scenarios should be provided for the basic plan excluding the optional feature; in case of a universal life product, guaranteed/conservative basis and current assumed basis should be provided for the basic plan excluding the optional feature. Insurers can include a supplementary illustration to show a projection of the basic plan with the optional features. It is not required to illustrate benefit projection under pessimistic/optimistic scenarios for this supplementary illustration. Future re-projection should be prepared according to the option chosen by the policyholder (i.e. policy with optional feature chosen should show the policy value reflecting this option benefits).
- (e) For the avoidance of doubt, riders in general are not considered as optional product feature. As such, in providing future re-projection, an illustration on basic plan only should be provided as a minimum. Supplementary illustration on combining basic plan and riders can be provided separately.

**Q** 4. For the non-guaranteed benefits, can insurers illustrate a scale which is lower than that determined under current assumed investment return or current assumed crediting interest rates?

**A** 4. For illustration based on the current assumed investment returns or current assumed crediting interest rates, insurers are allowed to illustrate the values with investment returns or crediting interest rates not higher than the rates determined under current assumed basis.

**Q** 5. Are insurers allowed to include a projection under current basis (i.e. current declared crediting interest rate and current charges) for universal life policies?

**A** 5. For the template of universal life, it is not allowed to include a projection based on current declared crediting interest rate and current charges. Projections under guaranteed/conservative basis and current assumed basis are sufficient for customer without information overflow.

**Q** 6. Rather than showing a different accumulation interest rate under the pessimistic and optimistic scenario, can insurers continue to use the prevailing accumulation interest rate on the projection under participating policy?

**A** 6. For the projections under pessimistic and optimistic scenarios, the accumulation interest rates (if any) should be determined with reference to the investment returns assumed in these scenarios.

**Q** 6(a) Under the HKFI Standard Illustration for Participating Policies, it states that benefits under Pessimistic Scenario are based on a decrease of about x% p.a. whereas benefits under Optimistic Scenario are based on an increase of about y% p.a. in comparing with the current assumed investment return. Please elaborate a bit more about the expectation of x% and y% i.e.: an absolute change of investment return as compared with the current assumed investment return is expected, or a percentage change as calculated from the current assumed investment return should be disclosed?

**A** 6(a) It is expected that an absolute change of investment return should be disclosed. For example, if the current assumed investment return is at C%, and the benefits under Pessimistic Scenario are based on a decrease of about x% p.a., the Pessimistic Scenario investment return is expected to be (C%-x%)p.a.; similar logic applies on the Optimistic scenario: the benefits under Optimistic scenario are based on an increase of about y% p.a., the Optimistic Scenario investment return is expected to be (C%+y%).

**Q** 7. For plans with guaranteed coupons, is it possible to have a separate column to show it?

**A** 7. For products offering guaranteed cash coupon(s), if pay-out basis is to be illustrated, a column illustrating the guaranteed cash coupons and relevant explanatory notes should be added beyond the column of "Total Premium Paid". On the other hand, if accumulation basis is to be illustrated, the guaranteed coupon amount should be added to the "Guaranteed" column; whereas the interest generated from the coupon(s) should be added to the "Accumulated Dividends and Interest" column (if non-guaranteed) or to the "Guaranteed" column (if guaranteed).

## **II. Formatting and Presentation**

**Q** 8. Are insurers allowed to highlight certain figures to draw policyholders' attention? For instance, some insurers show figures for every 5 years in boldface in the illustration template for ease of reading. Please clarify if insurers can keep this format in future.

**A** 8. No. Only those figures which are guaranteed can be highlighted (i.e. bold or color font). Nonetheless, formatting which are not misleading, and for the benefit of policyholders (e.g. a line under the row of figures every five policy years), is allowed.

**Q** 9. For premium payment term and benefit term, can we present the premium payment term and benefit term as pay to certain age instead of number of years?

**A** 9. Yes. For premium payment term and benefit term stated in the template, both "x years" or "to age x" is acceptable.

**Q** 10. For the template of participating policies under Section 3 - illustration summary, apart from showing the surrender values and death benefits in one page, are insurers allowed to present the figures in two pages?

**A** 10. Yes. Insurers have an option to present the figures in two pages in the format below:

*For the first page:*

End of Policy Year	Total Premiums Paid	SURRENDER VALUE			
		Guaranteed	Non-Guaranteed		Total
			Accumulated Dividends and Interest	Terminal Dividend	
1					
2					
3					
4					
5					
10					
15					
20					
25					
30					
At age 65 (5-year interval)					
At Age 100					

*For the second page:*

End of Policy Year	Total Premiums Paid	DEATH BENEFIT			
		Guaranteed	Non-Guaranteed		Total
			Accumulated Dividends and Interest	Terminal Dividend	
1					
2					
3					
4					
5					
10					
15					
20					
25					
30					
At age 65 (5-year interval)					
At Age 100					

**Q** 11. For the template of universal life policies under Section 3a - illustration summary, apart from showing the surrender values and death benefits in one page, are insurers allowed to present the figures in two pages?

**A** 11. Yes. Insurers have an option to present the figures in two pages in the format below:

*For the first page:*

End of Policy Year	Total Premiums Paid	Guaranteed Basis / Conservative Basis		Current Assumed Basis	
		[Description of Minimum Guaranteed Crediting Interest Rate / 0% p.a.]		[Description of Current Assumed Crediting Interest Rate]	
		Maximum / Current charges are applied		Current charges are applied	
		Account Value	Surrender Value	Account Value	Surrender Value
1					
2					
3					
4					
5					
10					
15					
20					
25					
30					
At age 65 (5-year interval)					
At age 100					

*For the second page:*

End of Policy Year	Total Premiums Paid	Guaranteed Basis / Conservative Basis		Current Assumed Basis	
		[Description of Minimum Guaranteed Crediting Interest Rate / 0% p.a.]		[Description of Current Assumed Crediting Interest Rate]	
		Maximum / Current charges are applied		Current charges are applied	
		Account Value	Death Benefit	Account Value	Death Benefit
1					
2					
3					
4					
5					
10					
15					
20					
25					
30					
At age 65 (5-year interval)					
At age 100					

### III. Section 3 – Company Customization

**Q** 12. Can insurers customize the illustration templates to fit different product features?

**A** 12. Insurers may customize the standard illustration, except otherwise stated, to exclude information not applicable to the product and not relevant to customers; and to include additional information provided that such additional information is not misleading and does not otherwise detract from the information disclosed in the standard requirements. For example, if the product does not offer terminal dividend, the column showing terminal dividend and relevant explanatory notes can be deleted; if the product has different risk classes, the relevant risk classes can be added provided not misleading; the charge items and description of charges of universal life products can be revised to be consistent with the product features, etc.

**Q** 13. It is noted that the same illustration document applies to re-projection for inforce policies. Do insurers have the flexibility to customize the template / format / wording for the purpose of inforce illustration? For instance, whether initial sum assured / initial premium should be updated to latest? Should the projection start from current snapshot instead of policy year 1?

**A** 13. In preparing re-projection for inforce policies, it is required to show insured's data, policy benefits and the re-projection under the current assumed basis (i.e. sections 1, 2 and 3 of standard template for participating policies; and sections 1, 2 and 3a of standard template for universal life policies). The policy benefit summary should be based on the policy's updated inforce status (e.g. attained age, current sum assured, etc). The re-projection should start from the policy year in which the re-projection is performed and be based on the updated assumptions derived from the company's current view of the market outlook. Relevant warnings and explanatory notes should be suitably modified.

**Q** 14. Is any different illustration required for different payout option for non-guaranteed benefit (i.e. accumulation, premium reduction, cash pay-out etc)? Also, how is the illustration for reduced paid-up (RPU), extended term insurance (ETI) policies where future dividend and coupon will be forfeited?

**A** 14. The inforce illustration should follow the current dividend option (e.g. cash payout or premium offset etc). If the policyholder has chosen dividend accumulation, the inforce illustration should be projected with dividend accumulated. In case of RPU and ETI policies where future dividend and coupon are forfeited, inforce illustration is optional.

**Q** 15. Please clarify if the standard illustration template (and the terminology) applies to re-projection of benefit illustrations.

**A** 15. The requirement to provide benefit projections based on the standard templates and insurance terminology will apply to i) point-of-sale illustration for new products and ii) point-of-sale illustration for new policies of current products. For the sake of clarity, it is expected the insurance terminology in other product documents (e.g. product brochure, policy provision) are consistent with benefit

illustration to avoid confusion to policyholders.

It is required to apply the standard templates (except insurance terminology) to re-projection for inforce policies of current products. If an insurer chooses to adopt admissible insurance terminology in preparing re-projection for inforce policies and if the insurance terminologies presented in the re-projection differ to those in other product documents, the insurer can decide whether a glossary with mapping of existing terminologies to admissible terminologies needs to be provided to policyholders.

In light of the time needed for system change, OCI agreed to have no-action period in respect of provision of point-of-sale illustration for new policies of current products and inforce re-projection of current products until 1 July 2017 to allow insurers additional preparation time. Nonetheless, insurers are required to make best effort to comply with the requirements as soon as practicable.

For the avoidance of doubt, the focus is on insurance terminology, not general terminology. Alternative admissible and inadmissible insurance terminologies are shown below:

**List of ADMISSIBLE alternative insurance terminology for new policies:**

Insurance terminology in the templates (English)	Admissible alternative insurance terminology (English)	Insurance terminology in the templates (Chinese)	Admissible alternative insurance terminology (Chinese)
<b>Participating and Universal life products</b>			
Benefit Term	Policy Term / Protection up to age	保障年期	保單年期 / 保單期 / 保險單期 / 保障至年齡 / 保障期至(歲)
--	--	身故賠償額	身故保障 / 身故賠償 / 身故權益 / 身故保障賠償 / 死亡賠償
--	Cash coupons	--	現金 / 可支取現金
--	Guaranteed monthly income / Monthly guaranteed annuity payment <sup>Note A</sup>	--	保證每月入息 / 每月保證年金金額
--	Paid up addition	--	紅利繳清保險
--	--	保費	供款
Premium Payment Term	Premium Term / Premium Payment Period / Premium Payment up to age	保費供款年期	保費繳費年期 / 保費繳款年期 / 保費繳付年期 / 保費繳付期 / 繳付保費年期 / 保費年期 / 保費繳費至年齡 / 保費繳付期至

Insurance terminology in the templates (English)	Admissible alternative insurance terminology (English)	Insurance terminology in the templates (Chinese)	Admissible alternative insurance terminology (Chinese)
			(歲)
--	Maturity Dividend / Maturity Bonus	--	期末紅利 / 期滿紅利
--	Special Dividend / Special Bonus	--	特別紅利
Reversionary Bonus	--	復歸紅利	歸原紅利 / 保額增值紅利
Surrender Value	Surrender Benefit / Cash Value	退保發還金額	退保保障 / 退保價值 / 現金價值 / 現金值 / 淨現金價值
Sum Assured	Sum Insured	保險金額 / 保障金額	保額 / 保障額 / 投保額
Supplementary Benefits	Supplementary Contract / Rider	--	--
Terminal Dividend / Terminal Bonus	--	終期紅利	--
<b>Universal life products</b>			
--	--	戶口價值	賬戶價值
--	--	保險成本	保險費用 / 人壽保險費
--	--	保險成本費率	保險費用率
Premium Charge	Policy Premium Charge / Premium Expense Charge	保費費用	保單保費費用 / 保費行政費用
Sum At Risk	Net Amount At Risk	淨保額	風險額 / 淨承擔風險總值
--	--	萬用壽險	萬用人壽保險

**List of INADMISSIBLE insurance terminology for new policies:**

Insurance terminology in the templates (English)	INADMISSIBLE insurance terminology (English)	Insurance terminology in the templates (Chinese)	INADMISSIBLE insurance terminology (Chinese)
<b>Participating and Universal Life Products</b>			
Benefit Term	Coverage up to age	--	--
Sum Assured	Face Amount / Coverage / Benefit Amount <sup>Note B</sup>	保險金額	面值
<b>Participating Products</b>			
Accumulated Dividends & Interest	Step up protection cash value / Step up protection face amount / Accumulated dividends / Balance of accumulated dividends	累積紅利及利息	積存紅利 / 積存的保單紅利 / 累積紅利 / 積存紅利餘額
Terminal Dividend/ Terminal Bonus	Maturity Dividend / Maturity Bonus / Special Dividend / Partner Bonus <sup>Note C</sup>	終期紅利	期滿紅利 / 期滿花紅 / 期末獎賞 / 期末紅利 / 特別紅利 / 特別獎賞 / 終期獎賞 / 終期花紅 / 期終額外紅利
<b>Universal life products</b>			
Account Value	Accumulation Value / Accumulated Value / Policy Value	戶口價值	累積價值 / 保單價值 / 帳戶價值
Crediting Interest Rate	Crediting Rate / Interest Rate / Projected Crediting Rate	派息率	利率 / 給付利率 / 息率 / 存入利率 / 存入年利率
Current Assumed Basis	Current Basis / Projected (Non-Guaranteed) Basis <sup>Note D</sup>	現時假設基礎	現行基礎 / 現時(非保證)基礎 / 預計(非保證)基礎
--	--	現時假設派息率	現時息率
Premium Charge	Administrative Charges / Management Charge	保費費用	行政管理費

Insurance terminology in the templates (English)	INADMISSIBLE insurance terminology (English)	Insurance terminology in the templates (Chinese)	INADMISSIBLE insurance terminology (Chinese)
Surrender Charge	Withdrawal Charge	退保費用	提早贖回費 / 提款手贖費

**Notes:**

- A. For products offering monthly income, the guaranteed monthly income cannot be used to mean sum assured (or initial sum assured). This feature can be included as additional information on top of the sum assured (or initial sum assured).
- B. As mentioned in the Explanatory Notes, companies can include in standard illustration additional information only if it is relevant to illustrate product features to customers. For example, the term “Face Amount” defined as the unit measure for premium should not be used in the illustration.
- C. Terminal Dividend refers to dividend payable upon death, surrender or maturity. If the dividend is only payable upon maturity, it should be named as Maturity Dividend / Maturity Bonus. For dividend/bonus to be issued under other situation, it could be labeled as Special Dividend/Bonus or other appropriate terms, provided not misleading and with detail explanation presented in the illustration.
- D. For universal life standard template, crediting interest rate for the current year cannot be used to mean Current Assumed Basis. Under Current Assumed Basis, current best estimate crediting interest rate and current scale of charges should be adopted in the projection. From time to time, current best estimate crediting interest rate may not be the same as the current crediting interest rate.