

Notice No: MAS 320
Issue Date: 29 June 2007
(Last revised on 20 February 2009)*

MANAGEMENT OF PARTICIPATING LIFE INSURANCE BUSINESS

Introduction

1. This Notice is issued pursuant to section 64(2) of the Insurance Act (Cap. 142) (“the Act”).
2. This Notice applies to any direct insurer registered to carry on life business.
3. The Notice (with the exception of paragraph 9) shall take effect on 1 January 2008. Paragraph 9 shall take effect on 1 March 2008.

Definition

4. For the purposes of this Notice, “sub-fund” means a part of a participating fund for which the insurer adopts a different strategic asset allocation in accordance with the investment objective for a particular group or class of products.
5. The expressions used in this Notice shall, except where expressly defined in this Notice or where the context otherwise requires, have the same respective meanings as in the Act.

Internal Governance Policy

6. An insurer which has established or will be establishing a participating fund shall put in place an internal governance policy on the management of its participating life insurance business.
7. The insurer shall include in the internal governance policy the items in Appendix A (Information to be contained in the Internal Governance Policy).
8. The insurer shall ensure that —
 - (a) the internal governance policy is approved by its Board of Directors;
 - (b) the internal governance policy is reviewed annually by its Board of Directors to ensure that the internal governance policy remains appropriate; and
 - (c) the participating fund is managed according to the rules and guiding principles set out in the internal governance policy.

Disclosure

Point-of-sale Disclosure

9. The insurer shall include in the product summary for its participating policy, the information specified in Appendix B (Information to be disclosed in the Product Summary).

Post-sales Disclosure

10. An insurer shall prepare an Annual Bonus Update in relation to the period ending 31 December 2007 and any subsequent period, containing the information required in Appendix C (Information to be contained in Annual Bonus Update).
11. The insurer shall send to the policyholder of a participating policy annually, the Annual Bonus Update by a date in each policy year as specified by the insurer in the policy or any other document.
12. The insurer may send to the policyholder of a participating policy, the Annual Bonus Update in parts provided that —
 - (a) the insurer has informed the policyholder of the scheduled period in which the parts of the Annual Bonus Update will be sent; and
 - (b) all the parts of the Annual Bonus Update are sent to the policyholder by the date in each policy year as specified by the insurer in the policy or any other document.
13. The insurer may send to the policyholder the Annual Bonus Update in electronic form where the written consent of policyholder has been obtained.

Appendix A

Information to be contained in the Internal Governance Policy

Section 1 – Introduction

- 1.1 State the purpose of the internal governance policy.
- 1.2 Briefly describe the participating fund and types of business that can be written in it.
- 1.3 Where there are delegation of any responsibilities by the Board of Directors (for example, to Principal Officer, Senior Management, and Appointed Actuary), to state the nature and type of each responsibility and to identify the person(s) responsible for that delegated responsibility.

Section 2 – Bonus Determination

- 2.1 Describe the insurer's objective(s) in managing the participating fund (for example, whether it is to provide stable medium to long term returns to participating policyholders).
- 2.2 Describe the existing bonus series, including the underlying participating product classes, for in-force participating policies.
- 2.3 Describe the considerations that the insurer take into account when exercising its discretion in bonus determination, for example:
 - (a) ensure fairness and equity to participating policyholders;
 - (b) maintain the solvency of the participating fund; and
 - (c) ensure consistency with the objectives set out in paragraph 2.1, particularly smoothing of bonuses.
- 2.4 State the controls and processes in place, such as risk sharing mechanism, bonus allocation process and reserving for future bonuses, to help the insurer ensure that the considerations stated in paragraph 2.3 are met when the insurer exercises its discretion in bonus determination.
- 2.5 Describe the risk sharing rules, including how the following key risks are shared for each product class:
 - (a) investment risks;
 - (b) expense risks;
 - (c) mortality risks;
 - (d) dread disease risks;
 - (e) other morbidity risks;
 - (f) lapse and surrender risks; and

- (g) business risks, e.g. riders and non-participating policies written in the participating fund.
- 2.6 Describe the methodology used to derive the value of assets backing participating product classes, including:
- (a) formula used to reflect all relevant cash flow items, i.e. income and outgo, for each product class;
 - (b) treatment of items that are product class specific, e.g. premium income, commissions and maturity benefits;
 - (c) treatment of items for which the risks are shared, e.g. investment returns and management expenses.
- 2.7 Describe the bonus allocation process, in particular:
- (a) state that the bonus allocation must be approved by the Board of Directors after taking into account the written recommendation of the Appointed Actuary;
 - (b) describe the approach adopted for smoothing of annual (e.g. reversionary) bonuses;
 - (c) describe the approach adopted for smoothing of terminal bonuses;
 - (d) describe the treatment of interim bonuses and vesting of bonuses;
 - (e) explain the use of market value reduction (“MVR”), if applicable.
- 2.8 Describe the reserving process for future bonuses, in particular:
- (a) state that the policy liabilities of participating policies include appropriate reserves for future bonuses;
 - (b) describe the approach adopted for smoothing of future bonuses, if applicable.

Section 3 – Investment of Participating Fund Assets

- 3.1 State the investment objectives of the participating fund.
- 3.2 State the strategic asset allocations of the participating fund, and where applicable, the sub-funds.
- 3.3 State whether the insurer fully manages, partly manages or does not manage at all, the assets of the participating fund itself. Where the insurer does not manage or partly manages the assets of the participating fund, state the identity of all the external fund managers appointed by the insurer to do so.
- 3.4 State the roles of the Board of Directors and the Investment Committee in the investment of the participating fund assets.
- 3.5 State the frequency of the review of the investment strategy.

- 3.6 Describe how the strategic asset allocation of the participating fund and where applicable, the sub-fund, is determined.
- 3.7 Describe the insurer's policy on the use of derivatives.
- 3.8 Describe the insurer's policy on making a loan to, or investment in, any other related corporations.
- 3.9 Describe the insurer's policy on investment in new asset classes.

Section 4 – Risk Management

- 4.1 State the business risks to which the participating fund is subject to.
- 4.2 Briefly describe how the insurer manages and controls such risks.
- 4.3 State the frequency of the review of such risks.

Section 5 – Charges and Expenses

- 5.1 Describe the expenses that are incurred, and charges that can be allocated to the participating fund.
- 5.2 Describe the method used for allocation of common expenses between participating fund, other insurance funds and the shareholders' fund.
- 5.3 State the frequency of the review to ensure the fairness of the ongoing allocation of common expenses.
- 5.4 State any significant outsourcing arrangements and the structure of charges for such arrangements.

Section 6 – Circumstances under which to Cease Taking New Business

- 6.1 State the circumstances under which the participating fund may be closed to new business.
- 6.2 Describe what may happen upon the closure of the participating fund to new business.

Section 7 – Shareholders' Profits and Responsibilities

- 7.1 State the insurer's policy on allocation of profits to shareholders. In cases where the insurer's policy is to distribute to its shareholders an amount of less than one-ninth of the value of bonuses allocated to participating policyholders, highlight this point explicitly.

- 7.2 State that the shareholders are responsible for meeting any shortfall in the solvency requirements of the participating fund

Section 8 – Disclosure Requirements

- 8.1 Describe the processes that the insurer has put in place to ensure compliance with the disclosure requirements to policyholders as set out in the regulations and industry guidelines.
- 8.2 State the mandatory items that need to be disclosed.

Appendix B

Information to be disclosed in the Product Summary

Provider of the Plan

1. State the name and address of the insurer.

Nature and Objective of the Plan

2. State that the plan is a participating life insurance policy and that it allows the policyholder to participate in the performance of the participating fund in the form of bonuses that are not guaranteed.
3. Describe the objective of the participating plan.

Benefits under the Plan

4. Describe the benefits provided under the participating policy, such as death benefits, disability benefits, critical illness benefits, surrender value and maturity benefit, as well as the distinction between guaranteed and non-guaranteed benefits.
5. Describe the different types of bonuses that may be paid, and the frequency in which the bonuses are determined and allocated to the participating policyholder.
6. Highlight that all guaranteed benefits, including bonuses which have already been allocated to the participating policyholders will be provided for regardless of the performance of participating fund.
7. Highlight that future bonuses of this plan which have yet to be allocated to the participating policyholder, are not guaranteed and the insurer will decide the level of bonus to be declared each year as approved by the board of directors, taking into account the written recommendation by the appointed actuary.

Investment of Assets

8. State the investment objective of the combined assets backing the plan.
9. Describe the investment strategy including the broad investment mix for the participating fund, or where applicable, the sub-funds.
10. State whether the insurer fully manages, partly manages or does not manage at all, the assets of the participating fund itself. Where the insurer does not manage or partly manages the assets of the participating fund, disclose the names and addresses of all the external fund managers appointed by the insurer to do so.

11. State the current investment mix of the participating fund or sub funds where applicable.
12. State the relevant investment returns and investment expense ratios for the past 3 years and explain how the investment expense ratio is calculated. Highlight that past performance is not necessarily indicative of future performance.

Type of Risks Affecting the Level of Bonuses

13. State the key factors affecting the performance of the participating fund.
14. Highlight that the insurer would determine the level of bonuses taking into account the current performance as well as future outlook for the participating fund.

Sharing of Risks

15. Describe how key risks (for example, investment, mortality, and morbidity), and expenses of this plan are shared with other plans.
16. Describe how the insurer determines the assets available to support the group or class of products that the participating policy belongs to.

Smoothing of Bonuses

17. Describe how the smoothing of annual (e.g. reversionary) and terminal bonuses will be carried out over the duration of the policy.
18. State the annual (e.g. reversionary) and terminal bonus rates for this plan for the past 3 years. If it is a new bonus series, indicate explicitly that there is no past experience available. Highlight that past performance is not necessarily indicative of future performance.

Fees and Charges

19. Describe, by giving examples, the types of expenses that can be incurred and the charges that can be allocated to the participating fund to cover the expenses.
20. Highlight that the fees and charges have been included in the calculation of the premium and will not be separately charged to the policyholder.

Adjustments in Premium Rates

21. Where the premium rate is guaranteed, the insurer shall explicitly state so. If not, highlight that the premium rate is not guaranteed and may be adjusted based on future experience.

Impact of Early Surrender

22. Describe the penalty, if any, on early surrender of the plan.
23. Highlight that buying a life insurance policy is a long-term commitment. An early termination of the policy usually involves high costs and the surrender value may be less than the total premiums paid.
24. Make reference to the benefit illustration to highlight the loss or low returns on surrendering the plan early.

Update on Performance

25. Describe the documents that the policyholders can expect to receive from the insurer to provide information about the performance of their policies.
[MAS Notice 320 (Amendment) 2009]
26. State when the policyholders can expect to receive these documents.

Conflict of Interests

27. Describe any conflict of interests that may exist or may arise in relation to the participating fund and its management. Where there are conflicts of interest to state the manner in which they will be mitigated or resolved.

Related Party Transactions

28. Describe transactions between the insurer and its related parties, if any, the significance of such transactions and how the insurer ensures that the transactions are done at arms' length.

Free Look Period

29. Explain the free look provision.

Appendix C

Information to be contained in Annual Bonus Update

1. Where there is a sub-fund for different groups or classes of participating products in the participating fund, the information in this Appendix shall be in respect of the relevant sub-fund.

Purpose of the Annual Bonus Update

2. State the purpose of the Annual Bonus Update as:
 - (a) informing the participating policyholders of the performance of the participating fund over the previous accounting period and of the bonuses allocated to them for the year; and
 - (b) setting out the future outlook based on the latest actuarial investigation of policy liabilities carried out under section 37(1) of the Insurance Act and updating the participating policyholders on any changes in future non-guaranteed bonuses.

Past Performance and Future Outlook

3. Describe the participating fund performance over the previous accounting period, with specific comments on key factors affecting bonuses to be allocated in this accounting period such as investment, mortality, morbidity, expenses and surrender experiences.
4. Describe the future outlook for the participating fund, in particular, any changes in outlook on the key factors affecting future non-guaranteed bonuses.
5. Explain how the past experience (including accumulated experience from previous years) and future outlook will impact the bonus allocation and reserves for future bonuses.
6. Provide an explanation where the information provided in paragraphs 3 to 5 is inconsistent with the latest actuarial investigation of policy liabilities of the participating fund carried out under section 37(1) of the Insurance Act.

Bonus Allocation

7. Highlight that the bonuses allocated to the participating policyholder for the previous accounting period were as approved by the board of directors, taking into account the written recommendation by the appointed actuary.
8. Provide a clear explanation where the bonuses approved by the board of directors differ from the recommendation made by the appointed actuary.
9. State when the bonus allocated will vest in the participating policy of the policyholder.

10. State the bonus rates allocated for the participating policyholder for the three years immediately preceding the accounting period under review. Where such information is not available, the insurer shall explicitly state the reason(s) for the unavailability.
11. State clearly that a full benefit illustration is available to participating policyholders upon request.
12. The full benefit illustration shall be based on the insurer's best estimate of the investment rate of return as shown to be supportable by the latest actuarial investigation of policy liabilities carried out under section 37(1) of the Insurance Act, but shall not exceed the industry's best estimate, at that time, of the long-term investment rate of return.
13. Where a full benefit illustration is provided to the participating policyholder, state clearly that the actual bonuses declared in the future may turn out to be higher or lower than those illustrated.

Update on Changes in Future Non-guaranteed Bonuses

14. Whenever there is, or will be a change in bonus rates, state the following figures to the policyholder of the participating policy:
 - (a) in relation to endowment plans —
 - (i) a projection of the revised total maturity benefit (maturity value);and
 - (ii) the impact of the bonus rate revision on the maturity value;
 - (b) in relation to whole of life plans —
 - (i) a projection of the revised total surrender value; and
 - (ii) the impact of the bonus rate revision on the total surrender value,
shown at a particular age or duration as specified in paragraph 15.
[MAS Notice 320 (Amendment) 2009]
15. Where a policyholder whose current age is less than 45 years, show the values required in paragraph (b) above at age 65. Where a policyholder whose current age is between 45 and 79 years inclusive, show the same values in 20 years' time. Where a policyholder whose current age is between 80 and 99 years inclusive, show the same values at age 99.
16. The projection of benefits for the purpose of paragraph 14 above shall be based on the insurer's best estimate investment rate of return as shown to be supportable by the latest actuarial investigation of policy liabilities carried out under section 37(1) of the Insurance Act, but shall not exceed the industry's best estimate, at that time, of the long-term investment rate of return.

17. State clearly that the actual bonuses that may be declared in the future may turn out to be higher or lower than shown in the projection of benefits for the purpose of paragraph 14.

*** Notes on history of amendments:**

1. MAS Notice 320 (Amendment) 2009