ADDITIONAL GUIDELINE ON
AGN 5: PRINCIPLES OF LIFE INSURANCE POLICY ILLUSTRATIONS

Introduction

The ASHK Life Insurance Committee conducted a survey regarding the benefit illustration of investment-linked products. The results showed that currently there are a variety of approaches to the interpretation of the assumed growth rate used in the calculation of the illustration. The Life Insurance Committee concluded that there should be a consistency among insurers and has produced this guideline as additional guidance for AGN5.

This guideline should apply to illustrations approved by the Appointed Actuary after 31 December 2009. Earlier compliance is encouraged. The actuary should indicate compliance with this guideline in the annual Actuarial Report provided to the Office of the Commissioner of Insurance, beginning with the first report issued after 31 December 2009. Whilst the indication of compliance is not a regulatory requirement, compliance with this guideline is a professional requirement. Members of other professional bodies who are not members of the ASHK should check with their parent body but, generally, the parent body would expect compliance with ASHK standards for professional work carried out under ASHK professional guidelines.

Guideline

Benefit Illustrations prepared under AGN5 should meet the following principles:

1. Products with higher product fees have lower benefit illustrations than products with lower fees; and
2. Unit fund performance is not product dependent. The same unit fund with the same fees should have the same assumed return, even in different products.

Illustration values are usually provided at two rates of return with the maximum rates of return being 5% and 9% ("assumed return"). The assumed return should be determined after deduction of the Fund Management Fee deducted from the unit price. Other fees, including additional mirror fund charges and other additional explicit or implicit fund charges retained by insurance companies at the product level, should be deducted after the assumed return has been determined. For example:-

- Where two different unit prices are calculated for the same investment fund by using two different Fund Management Fees, whether in the same product or in different products, then the assumed return is net of the lower Fund Management Fee, with the excess represented by the higher Fund Management Fee being deducted from the benefit illustration after the assumed return has been determined. Similarly the lower Fund Management Fee should be used in deriving the gross rate of return.
- A particular example of the above point is where a company has a back end loaded product and the unit price includes a deduction for the Fund Management Fee and an additional fee representing the product back end load. This additional fee should be deducted from the benefit illustration after the assumed return has been determined and only the basic Fund Management Fee should be used in deriving the gross rate of return.

- If a company offers unit fund A in two different products, then the net (ie "assumed") rate of return and gross rate of return should each be the same across the two product illustrations.

The principles stated in this guideline apply equally whether a company offers funds from internal or external fund managers.