



LIFE INSURANCE INDUSTRY REVISING CAPS ON PARTICIPATING POLICY ILLUSTRATIONS DOWNWARDS EFFECTIVE 1 JULY 2021

FREQUENTLY ASKED QUESTIONS

2 June 2021

1. Why have the caps on illustrative investment returns in the Policy Illustration (PI) of Participating (Par) policies been revised downwards?

The downward revision to the caps on the illustrative investment returns in the PI for Par policies is primarily in consideration of the sustained low interest rate environment.

The Life Insurance Association Singapore's (LIA Singapore) objective for this downward revision is to provide consumers with a more realistic range of projected investment returns for individuals to make better informed financial decisions.

Life insurers are expected to illustrate at least two scenarios; an upper investment return scenario (Upper Illustration Rate) and a lower investment return scenario (Lower Illustration Rate) to provide a reasonable potential range of the level of benefits.

For each Par product, the life insurer is to determine the Upper Illustration Rate to be used in the PI based on its asset mix and the expected return of each asset type. Life insurers' illustration rates should not be higher than the insurer's view of the investment returns achievable over the lifetime of the Par policies.

Effective 1 July 2021, the cap for the Upper Illustration Rate will be revised to 4.25% p.a., while the Lower Illustration Rate must be at least 1.25% p.a. below the Upper Illustration Rate.

For more information of the purpose of the illustration and determination of the illustration rates, please refer to the article "Illustrated Investment Rate of Return for Par policies" on the LIA Singapore website www.lia.org.sg

2. How are the caps on the illustrative investment returns used in the PI determined?

The caps on the illustrative investment returns are reviewed by the LIA Singapore annually to ensure ongoing relevance and appropriateness, considering recent and potential future economic market dynamics.

The caps are determined after considering views of the Association's member companies on a number of factors including the typical asset class mix that Par Funds invest in (such as equities, bonds and property) in the industry and the projected long-term returns on each asset class. These long-term return assumptions are determined taking into account historical asset class performance as well as global economic outlook.

Both the Upper Illustration Rate and the Lower Illustration Rate are purely for illustrative purposes and **do not** represent upper and lower limits of the investment performance of an insurer's Par Fund.

3. When was the last revision to the caps on the illustrative investment returns used in the PI?

The last revision of caps on illustrative investment returns used in the PI was in 2013 where the cap was reduced from 5.25% p.a. to 4.75% p.a. for the Upper Illustration Rate. The Lower Illustration Rate was set to be at least 1.5% lower than the Upper Illustration Rate.

4. How frequent will the caps on the illustrative investment returns used in the PI be reviewed and revised?

The Association reviews these caps annually to ensure its ongoing relevance and appropriateness, considering recent and potential future economic market dynamics.

The annual review factors in any changes to the long-term outlook of economic markets, to determine if the caps still reflect a realistic range of projected investment returns going forward for individuals to make better informed financial decisions. LIA Singapore will revise the caps when the realistic range of projected investment returns have shifted materially.

Such reviews have been conducted annually since the last change in 2013.

5. Are the revised caps standardised across the life insurance industry?

Yes, all companies across the life insurance industry are required to comply with the caps, i.e. they must not illustrate above the revised caps for all Singapore dollar-denominated Par policy applications submitted to the company from 1 July 2021 onwards.

Life insurers are still able to illustrate at various illustrative investment returns that are below the caps. In particular, the life insurers' Upper Illustration Rate should not be higher than the life insurer's view of the investment returns achievable over the lifetime of the Par product, if this is lower than the cap set by the Association.

6. Are existing Par policies affected? If so, will there be any bonus reductions?

The caps are applicable to the illustrations for all new Singapore dollar-denominated Par policy applications submitted to the company from 1 July 2021 onwards.

The rates used for the PI are for illustrative purposes only and will **not** affect the actual returns, and thus bonuses, of existing and future Par policies. The actual returns received from a Par policy will depend on the actual experience, including investment performance, of the Par Fund that will develop over the lifetime of the Par policy.

Actual investment returns in the future depends on the future economic conditions, actual asset class returns and allocation of the Par Fund. Eventual actual returns received by policyholders may be higher or lower than those reflected within the PI.

Life insurers will still follow their existing processes to review the performance of the Par Fund in order to determine the bonuses they would declare for the year on existing policies.

7. Does this indicate that the future investment returns will be lower?

The Association revised the caps on illustrative investment returns downwards taking into account the current low interest rate environment. The objective of this downward revision is to provide consumers with a more realistic range of projected investment returns for individuals to make better informed financial decisions.

However, it should be noted that the rates used for the PI are for illustrative purposes only and will **not** affect the actual returns, and thus bonuses, of existing and future Par policies. The actual returns received from a Par policy will depend on the actual experience, including investment performance, of the Par Fund that will develop over the lifetime of the Par policy.

Actual investment returns in the future depends on the future economic conditions, actual asset class returns and allocation of the Par Fund. Eventual actual returns received by policyholders may be higher or lower than those reflected within the PI.

8. What are the factors contributing to the eventual returns on Par policies?

Actual Par Fund performance depends on many factors, such as claims, surrender, expense experience, business risk, with investment performance being one of the key factors. The actual returns received from a Par policy will depend on the actual experience of the Par Fund that will develop over the lifetime of the Par policy.

In particular, actual investment returns in the future will depend on the future economic conditions, actual asset class returns and asset allocation of the Par fund. Eventual actual returns received by policyholders may be higher or lower than those reflected within the PI.

9. How does the change in caps on Par products' PI affect the benefits and premiums of new policies?

The illustrations of Par products that are currently showing illustrative investment returns above the new caps will need to be changed to illustrate at the new cap or lower, i.e. illustrations for new policies for such Par products will be changed from 1 July 2021 onwards. It is expected that the illustrated non-guaranteed returns will be lowered in such instances.

Some life insurers may take the opportunity to also review and re-design the product features of their product offering since they have to make changes to the PI, and accordingly policy benefits and premiums may be changed for new products going forward

You are advised to speak to a qualified representative of the respective life insurers for more information.

10. What are the considerations for me if I were to explore purchasing Par policies after 1 July 2021?

We strongly encourage individuals to engage with your Financial Adviser representative to decide on policies that are aligned with your personal needs and risk profile.

Caps on the illustrative investment returns in the PI have been revised downwards in view of the current low interest rate environment. This will provide consumers a more realistic range of projected returns for individuals to make better informed financial decisions.

You should note that the Upper Illustration Rate and Lower Illustration Rate shown in PI are used purely for illustrative purposes and **do not** represent upper and lower limits of the investment performance of an insurer's Par Fund.

*In addition, these rates are **not** a reflection of the actual returns of both existing and future Par policies. The actual returns received from a Par policy will depend on the actual experience, including investment performance, of the Par Fund that will develop over the lifetime of the Par policy.*

As such, it does not mean that the eventual actual return for a Par policy purchased before 1 July 2021 will necessarily be higher than that for a Par policy purchased from 1 July 2021 onwards.

Actual investment returns in the future will depend on the future economic conditions, actual asset class returns and asset allocation of the Par Fund. Eventual actual returns received by policyholders may be higher or lower than those reflected within the PI.

11. Is the MAS aware or has it endorsed the changes in caps on illustrative investment returns in the PI by LIA Singapore?

The life insurance industry - through the LIA Singapore - sets and reviews the caps on illustrative investment returns used in the PI. MAS has been informed of the downward revision to the caps on the Upper Illustration Rate and Lower Illustration Rate in the PI.

LIA Singapore's priority is to provide consumers a more realistic range of projected investment returns for individuals to make better informed financial decisions.

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