

ENHANCEMENTS TO POLICY ILLUSTRATION (“PI”) OF INVESTMENT-LINKED POLICY (“ILP”)

SCOPE OF APPLICATION

1. As set out in MC 121/13 issued by LIA to its members on 31 December 2013, insurers are to remove PI for Single Premium (“SP”) or Recurring Single Premium (“RSP”) ILPs from 1 February 2014. A recap of the rationale previously spelt out in MC 121/13 for doing so can be found in the Appendix.
2. However, it was noted that there are situations where SP or RSP ILPs could be protection focused. **This MU sets out that insurers are allowed¹ to issue PI for protection-oriented SP or RSP ILPs, subject to the requirements and safeguards set out below. Paragraphs 10 to 13 are also applicable to Regular Premium ILPs with the transitional arrangement outlined in paragraph 17.**
3. To be clear, insurers can issue an updated PI after sales even if the SP or RSP ILPs subsequently do not fulfill the protection-oriented definition. However, insurers need to ensure that the rules are not circumvented by allowing a rider to be added during inception in order to hit the 150% threshold and then perform cancellation thereafter. Paragraphs 10 to 14 will still apply.

DEFINITION

4. A protection-oriented SP or RSP ILP refers to SP ILP or RSP ILP respectively, where the aggregate amount payable for death benefit and critical illness benefit (unit deducting rider only, if any) under the ILP is 150% or more of the single premium paid (in the case of a SP ILP) or 150% or more of the aggregate amount of single premiums paid to date (in the case of a RSP ILP). To avoid doubt, the death benefit does not refer to accident and health benefits, which are paid out on the death (by accident or some other cause stated in the ILP) of the insured. Death benefit or critical illness benefit from cash paying riders should not be considered as the cost/premium do not have an impact on the ILP’s policy values.
5. This definition is to be applied on an individual policy basis (as opposed to product basis²). The death benefit or critical illness benefit provided on optional riders attached to the policy, together with its premium can be considered in the assessment of whether the policy meets the definition of being a protection-oriented SP or RSP ILP.
6. To avoid doubt, the policy must meet the definition of a protection-oriented SP or RSP ILP set out in paragraphs 4 and 5 consistently for the first 10 years of the policy duration.
7. The assessment of whether the policy meets the definition of a protection-oriented SP or RSP ILP will be assessed at the time of application and on standard underwriting basis.

¹ To avoid doubt, while insurers are allowed to issue PI for protection-oriented SP or RSP ILPs, they are not required to do so (i.e. insurers can choose not to issue PIs for these protection-oriented SP or RSP ILPs).

² An individual policy basis refers to the exact policy illustrated to a customer (i.e. customised to the customer’s age, gender, smoker status etc.) while product basis refers to the product illustrated to the customer without customising to the customer.

8. In the event that substandard loading is required upon underwriting, updated illustration with loaded premium can be provided and issued to the customers regardless of whether the policy meets the definition of a protection-oriented SP or RSP ILP after factoring the loading on the premium.

REQUIREMENTS

9. For protection-oriented SP or RSP ILP, in addition to preparing PI in the format issued by LIA, insurers are also required to factor in additional disclosures (paragraphs 10 to 14) in the main PI and table of deduction, and put in place additional safeguards (paragraphs 15 to 16) as set out below.

Inclusion of an illustrated rate of 0%

10. In addition to showing the prevailing upper rate (currently capped at 8%) and lower rate (currently capped at 4%), insurers are required to include a third column to illustrate the investment rate of return at 0%. Projection of a 0% illustrated investment rate of return highlights to the customers that under a non-growth scenario, coupled with the charges of the policy, returns may not be positive.
11. Insurers should strive to illustrate all 3 rates in one page. Only if there are genuine reasons (such as system constraints), insurers may illustrate two rates on one page and one rate on another page. However, in this case, the rates of 0% and the prevailing lower rate (i.e. currently capped at 4%) are required to be presented on one page, and the prevailing upper rate (i.e. currently capped at 8%) should be shown on the page after.
12. Insurers should ensure that all illustrations for each investment rate of return scenario are shown for the same number of years. If the values are zero or the policy has lapsed under one or more scenarios, “-” or “0” should be indicated as the value. Standard wordings to explain that the policy has lapsed are shown below.

Inclusion of a statement to explain lapse scenario due to insufficient policy value

13. To highlight the risk of a policy lapsing due to insufficient policy value, insurers are required to include the following statement in the PI. FA reps should highlight the lapse scenario to the consumers and that additional premiums are needed to avoid a policy lapse.

Please note that the above illustration assumes certain illustrated investment rates of return with prevailing fees and charges. There is a possibility that the policy value will drop to zero and in this case, the policy will be terminated and this is indicated with a [“-“ or “0”] in the illustration above.

The actual policy value and hence the possibility and timing of termination due to insufficient policy value will depend on the actual investment performance of the policy as well as any alterations or events such as variation in the sum assured or premium, premium holiday or partial withdrawals.

You can prevent the policy from lapsing by topping up additional premium.

Inclusion of a statement on provision of illustration for protection-oriented SP or RSP ILP

14. The following statement should be included in the PI to note that a PI is only available for protection-oriented SP or RSP ILP:

Please note that under the guidelines of Life Insurance Association, Singapore, a policy illustration for single premium or recurring single premium investment linked policy is only available if the death benefit and/or critical illness benefit of the policy is higher than 150% of the single premium paid or aggregate amount of single premiums paid to date. This is because for a policy with significant protection features, fees and charges that are related to insurance costs can have a material impact on the net return a policyholder receives on the policy. The policy illustration is to illustrate the impact of these fees and charges on the policy value under a fixed range of investment rates of return.

A policy illustration will not be provided if the policy does not meet the above criterion.

SAFEGUARDS

15. As mentioned in paragraph 5, the definition of a protection-oriented ILP should be interpreted on an individual policy basis. There could be scenarios where a SP or RSP ILP product could have multiple product variants, where some would meet the definition of protection-oriented ILP while others would not. In such cases, there is a risk of possible misrepresentation by the Financial Adviser representative (“FA reps”), or confusion to consumers as they can be shown a PI for one variant of the product that meets the “protection-oriented” definition, but eventually purchase another product variant that does not meet the “protection-oriented” definition. Insurers should put in place safeguards to mitigate such risks and ensure its FA reps are well trained enough to explain the concepts of protection-oriented and investment-oriented SP or RSP ILPs clearly, and the rationale³ behind the prohibitions of the issuance of PI for investment-oriented SP or RSP ILP.
16. For example, an SP ILP product could allow a consumer to choose the level of death benefit from 110% to 180%. The consumer might be shown a PI for a policy with death benefit of 160%, but eventually decide to purchase a policy with death benefit of 130%. If the FA rep did not clarify that the PI shown initially (for the policy with death benefit of 160%) was not applicable for the policy the consumer eventually purchased, the consumer might be of the incorrect understanding that his coverage is similar to that set out in the earlier PI shown to him. In such scenarios, FA reps should clearly explain to the consumers that the earlier PI shown was not applicable to the policy eventually purchased. To add, products that meet the “protection-oriented” definition on a product level (i.e. where all product variants would meet the “protection-oriented” definition) is unlikely to face this risk.

TRANSITIONAL ARRANGEMENT

17. For all products launched after the effective date of this guidelines, insurers should comply with the guidelines immediately. For existing products, insurers will be given 9 months from the date of this MU to comply with paragraphs 10 to 14.

³ Please refer to Appendix for the key reasons. This is in line with what was previously set out in MC 121/13.

APPENDIX: LIA FAQ FOR INSURERS' USE WITH STAKEHOLDERS (SUCH AS REPRESENTATIVES AND CUSTOMERS)

Why is PI only prohibited for the investment-oriented SP or RSP ILPs, and not protection-oriented SP or RSP ILPs?

The main objective of the PI for ILPs is to illustrate to customers the impact fees and charges can have on the policy value under a fixed range of investment rates of return. Where a policy has significant protection features, fees and charges that are related to insurance costs can have a material impact on the net return a policyholder receives on the policy.

As such, the PI is only prohibited for investment-oriented SP or RSP ILPS which are largely investment in nature, with very minimal protection features.

This also aims to avoid any misperceptions of the returns consumers can expect from their policies as returns on ILPs are not guaranteed and can be volatile. This also aligns the practice with Unit Trust industry, for which projections are not allowed.