保險業監管局
Insurance Authority

Understanding Life Insurance

Life insurance is designed primarily to transfer the financial risk incurred by the death of insured persons. It minimises the impact of their death on their dependents, especially if the insured persons are the primary breadwinners in the family, by providing their dependents with a death benefit to cover their financial needs.

- It provides the beneficiaries with a lump-sum death benefit if the insured person passes away.
- It minimises the impact on dependents in the event of the death of the insured person.
- It is an important tool for the primary breadwinner of a family.

Life insurance products have evolved in the past few decades, adding elements like savings, investment, wealth inheritance options, and even providing employee benefits (i.e. group life insurance) instead of providing only death benefits.

If you are going to take out a life insurance policy, first, identify your objectives, and evaluate your protection needs and financial situation. Compare the products offered by different insurers that are similar in nature, in terms of coverage, sum insured and premium level, so that you can choose one that best suits your needs.

Protection of the Policyholders' Interests

To protect the interests of existing and potential policyholders, the Insurance Authority (IA) issued guidelines* to all authorized insurers underwriting long term business. Insurers are required to meet the standards and practices stipulated in the guidelines to ensure fair treatment of customers during product design and selling, such as suitability assessment for potential policyholders, clear disclosure of product risk, disclosure of fulfillment ratio or crediting interest rate, and not offering advance payment of commissions to intermediaries. In respect of investment-linked assurance scheme (ILAS), insurers are required to make sure the potential policyholder has completed the "Risk Profile Questionnaire" and must provide the minimum protection stipulated in the guidelines.

* *Guideline on Underwriting Class C Business (GL 15) and Guideline on Underwriting Long Term Insurance Business (other than Class C Business) (GL 16).*

Term Life Insurance

Term life insurance is a purely protective product. If the insured person passes away during the coverage period, the beneficiary will receive a lump-sum death benefit. It does not comprise any savings or investment elements, so there is no accumulated cash value upon policy termination. In general, for the same premium, the payout for a term life insurance policy is higher than that of other types of life insurance.

Features

Coverage period	Fixed term or until a specified age
Death benefits	It is normally a fixed amount, but some policies may offer an amount which varies over the policy term.
Premium payment	▸ The premium remains the same over the term, but may increase with age upon renewal. ▸ Generally, it can be paid annually, monthly, quarterly or half-yearly.
Who should consider it?	▸ Young people with limited financial means. ▸ Individuals who have high protection needs (e.g. mortgage loan repayment) for a certain period of time. ▸ Individuals who are looking solely for protection and have other financial plans.

Reminders

1 Choose a coverage period that suits your needs

Term life insurance is designed to strengthen the protection of the insured person for a specific period. Consider your protection needs for a specific period, such as how long it will take to pay off your mortgage and when you expect your children to start working.

2 Consider your insurance portfolio as a whole

Term life insurance can be either a standalone policy or a rider on your existing policy. You can flexibly adjust the total sum insured by adding an appropriate amount of term life insurance.

3 Make sure you understand “guaranteed renewal”

The coverage period varies for different products, but in general, it is guaranteed renewable, which means the insurer guarantees policy renewal up to a specified age, regardless of the health condition of the insured person. However, “guaranteed renewal” does not mean there will be no changes in any of the policy terms. Insurers may adjust the premium level according to your age, the inflation rate or other factors.

4 Learn more about convertibility

Some policies allow you to convert your existing term life policy to a whole life insurance policy (see next page). For such conversions, policyholders are only required to pay the corresponding premium for the new policy, without the need to submit another health record. You may consider a conversion depending on your long-term insurance needs.

Whole Life Insurance

Whole life insurance offers mortality protection for the lifetime of the insured person. If the insured person passes away, the beneficiary will receive a lump-sum death benefit. It has savings elements and provides a cash value upon policy surrender. Some products are participating policies, which allow policyholders to receive non-guaranteed dividends or bonuses distributed from the insurer.

Features

Coverage period	Lifetime
Death benefits	The total amount as shown in the benefit illustrations. It normally comprises bonuses or dividends of the policy (if any) at the time of death.
Premium payment	▸ It can generally be paid in a single premium or by instalments. ▸ Instalments can generally be paid annually, monthly, quarterly or half-yearly. ▸ The premium normally remains unchanged over the term of the policy.
Who should consider it?	Individuals in a strong financial situation who want both protection and long-term savings.

Reminders

1 Understand that buying whole life insurance is a long-term financial commitment

Whole life insurance has a lifetime policy term. It takes a long time to accumulate the cash value, which means it requires a long-term financial commitment from the policyholder. Given the product structure, early surrender of the policy will result in a significant financial loss, with policyholders getting far less than they paid. Assess your long-term protection needs and affordability prudently before taking out a whole life insurance policy.

2 Pay attention to the non-guaranteed part in the cash value of the participating policy

Non-guaranteed dividends or bonuses are payments distributed to policyholders generated from the investment returns of insurers after deducting operating costs and profits, and are affected by the insurers' investment strategy and performance, claim experience, operational expenses, etc. The final payout may be higher or lower than the projected payout illustrated in the benefit illustration. For the actual non-guaranteed dividends or bonuses distributed for specific insurance products, refer to the fulfillment ratios published by the insurers. Refer to the Understanding a Participating Policy webpage on the Insurance Authority website to learn more about how to choose a participating policy and points to note when interpreting fulfilment ratio and benefits illustrations.

3 Adjust your insurance portfolio according to your personal protection needs

Whole life insurance can provide continuous protection for policyholders. However, if you are going to increase the sum insured significantly during a specified period, consider how to couple the product features of your whole life insurance with that of your term life insurance. Make use of their different product features to adjust your insurance portfolio to suit your protection needs.

Endowment Insurance

If the policy term ends or the insured person passes away, the insurer will pay a lump sum to the policyholder or the beneficiary. It has a savings element and provides a cash value upon policy surrender. Some products are participating policies, which allow policyholders to receive non-guaranteed dividends or bonuses from the insurer. The savings element in endowment insurance is greater than that in whole life insurance.

Features

Coverage period	Fixed term
Death benefits	The total amount as shown in the benefit illustrations. It normally comprises bonuses or dividends of the policy (if any) at the time of death.
Premium payment	▸ It can generally be paid in a single premium or by instalments. ▸ Instalments can generally be paid annually, monthly, quarterly or half-yearly. ▸ The premium normally remains unchanged over the term of the policy.
Who should consider it?	Individuals with specific savings goals, such as planning for their children's education.

Reminders

1 Be aware of the relatively weak life protection

Although endowment insurance comprises both savings and life protection, its savings function is usually the main feature, so the life protection part is relatively weak. For some short-term endowments in the market, the death benefits are only slightly higher than the premium paid. The life protection function of these products is very limited. Consider your objectives, and evaluate your needs regarding savings and life protection before taking out an endowment policy.

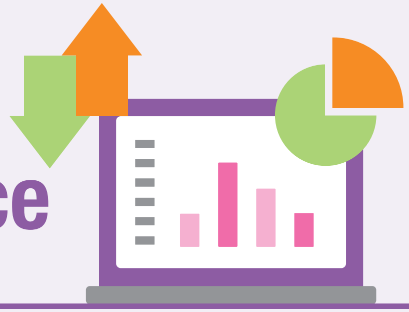
2 Choose a coverage period that suits your needs

Given the product structure, early surrender of the policy will result in a significant financial loss, with policyholders getting far less than they paid. Assess your savings goals and duration, and then choose the coverage period that best suits your needs.

3 Pay attention to the non-guaranteed part in the cash value of the participating policy

Non-guaranteed dividends or bonuses are payments distributed to policyholders generated from the investment returns of insurers after operating costs and profits are deducted, and are affected by the insurers' investment strategy and performance, claim experience, operational expenses, etc. The final payout may be higher or lower than the projected payout illustrated in the benefit illustration. For the actual non-guaranteed dividends or bonuses distributed for a specific insurance product, refer to the fulfillment ratios published by the insurers. Refer to the Understanding a Participating Policy webpage on the Insurance Authority website to learn more about how to choose a participating policy and points to note when interpreting fulfilment ratio and benefits illustrations.

Investment-Linked Assurance Scheme (ILAS)



An ILAS bundle life insurance and investment options. If the insured person passes away during the policy term, the insurer will pay a lump sum to the beneficiary. In the meantime, the policy will accumulate account value. The account value of the policy varies with the investment performance of the funds or assets selected by the policyholder. If the investment performance is poor, the account value of the policy may decrease or even be lower than the total premiums paid.

Features

Coverage period	Fixed term or lifetime
Death benefits	The amount of the death benefit is affected by the account value at the time of death; there is a minimum protection level, as stipulated in the guideline# issued by the Insurance Authority.
Premium payment	▸ It can generally be paid in a single premium or by instalments. ▸ Instalments can generally be paid annually, monthly, quarterly or half-yearly. ▸ The premium normally remains unchanged over the term of the policy. ▸ Some policies allow policyholders to apply for premium holidays. However, the fees and charges are still applicable during the premium holiday and are deducted from the account value.
Who should consider it?	Individuals who are investment savvy and want to invest while requiring minimal mortality protection.

 # Guideline on Underwriting Class C Business (GL 15)

Reminders

1 Be aware of the limited life protection

Most ILAS policies provide limited life protection. The death benefit only slightly exceeds the account value of the policy, and this value is affected by the performance of the selected investment portfolio. If the investment performance is poor, the account value of the policy may decrease and affect the death benefit. If a certain amount has been withdrawn from the policy during the coverage period, the death benefit will be reduced accordingly.

2 Pay attention to the high risk investment

The account value and the death benefits of an ILAS varies with the performance of the selected investment portfolio. If the investment performance is poor, the account value may decrease or even be lower than the total premiums paid. In some extreme cases, the account value may drop to zero. Remember to evaluate your risk-tolerance level before choosing an investment option.

3 Check the fees and charges

An ILAS involves different fees and charges, such as the cost of insurance, surrender charges, administrative charges, charges for switching investment options and fund management fees. The fees and charges are deducted from the account value, which will affect the final amount of the surrender value or death benefit received by the policyholders or their beneficiaries.

4 Check the funds when choosing investment options

To protect your interests, check whether the fund is authorized by the Securities and Futures Commission (SFC) when choosing an investment option; ensure that you fully understand the fund's features, risks, fees and charges, and the background of the fund company; and regularly monitor the fund's investment performance.

Universal Life Insurance

Universal life insurance has a savings element, which can accumulate the account value. If the insured person passes away, the insurer will pay a lump sum to the beneficiary. There is flexibility in terms of premium payments and withdrawals of account value. Policyholders are normally allowed to adjust the premium amount and withdraw the account value according to the policy terms. They can also use the interest earned to pay premiums. The account value increases with interest distributed by insurers and decreases with deductions for the cost of insurance and other charges. Insurers distribute non-guaranteed interest according to a regularly declared crediting interest rate. Some policies have a minimum guaranteed crediting interest rate.

Features

Coverage period	Generally lifetime, but flexible, depending on the policy terms.
Death benefits	The sum insured or the account value at the time of death, whichever is higher; or a specified percentage that is higher than the account value at the time of death.
Premium payment	▶ It can generally be paid in a single premium or by instalments. ▶ Instalments can generally be paid annually, monthly, quarterly or half-yearly. ▶ Policyholders may increase the premium amount according to the policy terms during the coverage period. ▶ Some policies allow policyholders to apply for premium holidays. However, the fees and charges are still applicable during the holiday and are deducted from the account value.
Who should consider it?	▶ Individuals in a strong financial situation, who have a basic knowledge of insurance and financial management. ▶ Individuals who may need to partially withdraw the account value in the future to meet liquidity needs.

Reminders

1 Pay attention to the crediting interest rate

Most universal life insurance in Hong Kong regards the interest rates announced by insurers as expected returns. Pay attention to the various factors that may affect the rate, which may result in an unexpected outcome.

2 Note that life protection is affected by the account value

Policyholders are allowed to withdraw the account value of the policy during the coverage period to meet their liquidity needs, but the death benefit will be reduced accordingly.

3 Review your protection needs and account value regularly

The flexibility of universal life insurance allows policyholders to adjust the sum insured and premium level. To make use of this feature, regularly review your protection needs and the account value of your policy, and make adjustments if necessary.

4 Check the fees and charges

Universal life insurance involves different fees and charges, such as the cost of insurance, administrative charges and surrender charges. The fees and charges are deducted from the account value, which may affect the final amount of the surrender value or death benefit received by the policyholders or their beneficiaries.

Common types of life insurance products at a glance

	Term life insurance	Whole life insurance	Endowment insurance	Investment-linked assurance scheme (ILAS)	Universal life insurance
Key features	Pure life protection product with no accumulated cash value	Provision of lifetime protection and accumulation of cash value, which can be withdrawn upon policy surrender	Provision of a savings element and accumulation of cash value, which can be withdrawn upon policy surrender	Bundling of life insurance and investment options; variation of account value, depending on investment performance	Provision of a savings element and flexibility in terms of premium payment and withdrawal of account value
Coverage period	Fixed term or until a specified age	Lifetime	Fixed term	Fixed term or lifetime	Generally lifetime, but flexible, depending on the policy terms
Death benefits	Normally a fixed amount equal to the sum insured. Some policies may offer an amount which varies over the policy term.	The total amount as shown in the benefit illustrations. It normally comprises bonuses or dividends of the policy (if any) at the time of death.	The total amount as shown in the benefit illustrations. It normally comprises bonuses or dividends of the policy (if any) at the time of death.	Depends on the account value, which is affected by the investment performance up to the time of death. There is a minimum protection level, as stipulated in the guideline# issued by the IA.	The sum insured or the account value at the time of death, whichever is higher; or a specified percentage that is higher than the account value at the time of death.
Who should consider it?	Young people with limited financial means; individuals who have high protection needs for a period of time or who are looking solely for protection and have other financial plans	Individuals in a strong financial situation who want both protection and long-term savings	Individuals with specific savings goals	Individuals who are investment savvy and want to invest, while requiring minimal mortality protection	Individuals in a strong financial situation who have a basic knowledge of insurance and financial management; or those who may need to partially withdraw the account value in the future to meet liquidity needs

 # Guideline on Underwriting Class C Business (GL 15)

Frequently Asked Questions

1 How should I assess my life protection needs?

The primary purpose of life insurance is to provide financial protection to your dependents in the event of your death and thus minimise the impact on them. To estimate the coverage you need, subtract the resources available (e.g. savings, investment and pensions), from your protection needs (e.g. medical expenses of dependents, education expenses of children, and household debt). Generally, young to middle-aged adults often have more dependents and more debt, resulting in higher protection needs.

In the meantime, consider your financial situation and affordability, so that you choose a life insurance product that suits your needs.

You may evaluate your protection needs with the assessment tool provided by the Insurance Authority:
https://education.ia.org.hk/en/tool/calculator.html

2 Should I buy a pure protective life insurance product or one with a savings element?

In general, pure protective life insurance has a lower premium for a bigger sum insured, but it does not accumulate any cash value. For policies with savings elements, policyholders can withdraw cash value upon policy surrender. But for the same premium level, the sum insured of a policy with a savings element is often lower than that of a pure protective life insurance product.

To choose a policy that suits your needs in terms of coverage, sum insured and premium level, consider your objectives, and evaluate your protection needs and financial situation.

3 My existing coverage is not adequate for my protection needs, so should I replace my existing policy with a new one?

Generally, life insurance involves a relatively long policy term and takes a long time to accumulate cash value, especially for policies with savings elements. If you surrender your life insurance policy during the coverage period, you will lose your protection immediately, and the surrender value may be less than the premiums you paid.

Identify your objectives before replacing your life insurance policy. If you are only attempting to increase the sum insured or extend the scope of your insurance coverage, you may consider adding a rider or taking out a new policy in addition to your existing policy to enhance your protection for a specific period.

4 If I change my mind right after purchasing a life insurance policy, can I cancel it?

To protect the interests of policyholders, a "cooling-off period" applies to all life insurance products sold in Hong Kong. During the cooling-off period, you have the right to cancel the life insurance policy and obtain a full refund of the insurance premium paid (less a "market value adjustment", if applicable). Refer to the "Glossary of Life Insurance Terms" (see next page) for the definition of "cooling-off period".

5 Why is the non-guaranteed policy dividend I received upon the end of the policy term different from the illustrated amount at the point of sale?

Many life insurance products in the market are participating policies. They provide policyholders with non-guaranteed benefits by distributing dividends or bonuses, which allow policyholders to share the product profits. Non-guaranteed benefits (also known as dividends or bonuses) are not guaranteed to be paid by insurers. They may not be the same as the insurer's investment returns. The payout is affected by the insurer's investment strategy and performance, claim experience, operational expenses, etc. The final payout may be higher or lower than the projected payout illustrated in the benefit illustration at the point of sale.

Glossary of Life Insurance Terms

Participating policy
This is commonly featured in long term insurance products, such as whole life insurance, endowment insurance or critical illness insurance products that have a savings element. It provides policyholders with life protection, as well as non-guaranteed benefits by distributing dividends or bonuses, which allow policyholders to share the product profits. Refer to the Understanding a Participating Policy webpage on the Insurance Authority website to learn more about how to choose a participating policy.

Cash value / Surrender value
The amount of money that the policyholder will receive upon policy surrender.

Account value
This is the value accumulated in a policy account. It is not necessarily the same as the surrender value. For example, some policies may have fees and charges deducted from the account value upon surrender, so the final amount received may be lower than the account value. For investment-linked assurance scheme, the account value of the policy varies with the investment performance of the funds or assets selected by the policyholders.

Fulfillment ratio
The fulfillment ratio may serve as a useful reference of past performance of the distribution of the non-guaranteed benefits of a product, but it is by no means the sole indicator of the future declaration of the insurance product. In simple terms, the fulfillment ratio is the aggregate actual accumulated non-guaranteed benefits against the illustrated aggregate amounts for all relevant policies at the point of sale. A ratio close to 100% means the insurer has come close to achieving its projected non-guaranteed benefits. If the fulfillment ratio is higher than 100%, it means the actual payout was higher than the illustrated amount at the point of sale, and vice versa. Refer to the Fulfillment Ratio webpage on the Insurance Authority website to learn more about how to calculate the fulfilment ratio and points to note when interpreting the figures.

Non-guaranteed dividend or bonus
This is a bonus or dividend distributed to policyholders. It is affected by the insurers' investment strategy and performance, claim experience, operational expenses, etc. The final payout may be higher or lower than the projected payout illustrated in the benefit illustration. Under extreme circumstances, the amount of non-guaranteed benefits may be zero.

Annual dividend
This is a type of non-guaranteed policy dividend. Insurers declare and pay out the dividend annually according to the policy terms. In general, the amount is fixed once declared. Policyholders may either withdraw the dividend or leave it with the insurer to accumulate non-guaranteed interest.

Reversionary bonus
This applies only to a participating policy. The amount is non-guaranteed. It is a bonus of which the face value is a permanent addition to the sum assured in the policy and payable upon death. The cash value is paid at a discount upon policy termination that did not result from the death of the insured person.

Terminal dividend
This applies only to a participating policy. The amount is non-guaranteed. It is a one-off entitlement and payable upon policy termination, such as death of the insured, policy surrender or maturity. The amount may change for each declaration. The actual amount is determined only when it is payable.

Minimum guaranteed crediting interest rate
The account value of universal life insurance can earn interest at the crediting interest rate declared by the insurer, subject to the respective policy terms. A minimum guaranteed crediting interest rate may apply to some polices, which means the interest rate floor will be the guaranteed interest rate.

Benefit illustration
According to the "Guideline on Benefit Illustrations for Long Term Insurance Policies" (GL 28), insurers should provide potential and existing policyholders of specific types of life insurance policies with a benefit illustration showing the projected surrender value and death benefit at the point of sale and when the policy is in force.

Cooling-off period
A "cooling-off period" applies to all individual life insurance policies sold in Hong Kong, to allow policyholders to review the terms and conditions of the policy after the purchase. During the cooling-off period, the policyholder has the right to cancel the policy. Insurers should offer a full refund of the insurance premium paid or an amount less a "market value adjustment", if applicable. The cooling-off period is 21 calendar days immediately following the day of delivery of the policy, or the Cooling-off Notice to the policyholder or the policyholder's nominated representative (whichever is earlier).

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