

Interpretation Notes

Guideline on Underwriting Long Term Insurance Business (Other Than Class C Business) (“GL16”)

Fulfillment Ratios & Historical Crediting Interest Rates Guide on Calculation Methodology and Disclosure Format

Introduction

The Insurance Authority (“IA”) issues these Interpretation Notes to supplement the guidance provided to the authorized insurers in paragraph 4.1(a)(v) of Appendix 1 and paragraph 4.2 of Appendix 2 to the Guideline on Underwriting Long Term Insurance Business (other than Class C Business) (“GL16”). These Interpretation Notes set out the IA’s views as to how the fulfillment ratios for participating products and the historical crediting interest rates for universal life products should be calculated and disclosed to the public, by reference to illustrative examples.

These Interpretation Notes do not have the force of law in that this is not subsidiary legislation and should not be interpreted in a way that would override the provision of any law. Failure to follow the requirements in these Interpretation Notes, however, may result in an authorized insurer contravening the related provision of GL16 which these notes supplement, the potential consequences of which are stated in paragraph 4.4 of GL16. Authorized insurers underwriting participating products and universal life products are therefore expected to adhere to the calculation methodology and disclosure format set out in these Interpretation Notes and should seek the IA’s prior written consent before deviating from these requirements.

These Interpretation Notes are not intended to be a comprehensive guide and do not constitute legal advice. Persons who have questions on the requirements in the GL16 are advised to seek professional advice. Authorized insurers may also consult the relevant case officers at the IA if they have any questions about these Interpretation Notes. The IA reserves the right to review and update these Interpretation Notes from time to time.

Unless otherwise specified, words and expressions in these Interpretation Notes shall have the same meanings as given to them in the GL16.

1. KEY PRINCIPLES

- 1.1 Fulfillment ratios and historical crediting interest rates which are required to be disclosed to the public must be accurate and calculated using a uniform methodology.
- 1.2 The disclosure format must be simple and easy for an ordinary person to understand.

2. **CALCULATION OF FULFILLMENT RATIOS FOR PARTICIPATING PRODUCTS**

2.1 Pursuant to paragraph 4.1(a)(v) of Appendix 1 to GL16, an authorized insurer is required to disclose at least the product types and fulfillment ratios for each product series of its participating policies. The fulfillment ratios are calculated as the average ratio of non-guaranteed dividends/bonuses actually declared under such policies against the illustrated amounts of non-guaranteed dividends/bonuses in relation to such policies under best estimate scenario provided to customers at the point of sale. The minimum standards of disclosure expected by the IA in relation to the disclosure obligations in paragraph 4.1(a)(v) of Appendix 1 to GL16 are set out in sections 2, 4 and 5 of these Interpretation Notes.

In-scope participating product series

2.2 Unless otherwise agreed by the IA pursuant to paragraph 2.3 below, an authorized insurer is required to calculate and disclose each year the fulfillment ratio for each of its participating product series for which (a) it has issued new policies since 2010, and (b) it still has policies in force in the reporting year (“in-scope participating product series”). For the avoidance of doubt, where an in-scope participating product series contains policies issued before 2010, those policies are not required to be included in the calculation and disclosure of the fulfillment ratios for the participating product series.

2.3 An authorized insurer may apply in writing to the IA for an exemption from the requirement to calculate and disclose fulfillment ratios in respect of a particular in-scope participating product series. The IA may grant such exemption if the authorized insurer demonstrates to the satisfaction of the IA that calculating and disclosing fulfillment ratios in relation to that particular participating product series is no longer of value to the customers (because, for example, the authorized insurer is running off its business and is no longer accepting any new business, etc.).

2.4 Products with the same features but different pricing information (e.g. different level of guaranteed and non-guaranteed benefits, premium rates, etc.) may be grouped together and regarded as products within the same in-scope participating product series for the purpose of calculating and disclosing the fulfillment ratios in relation to the series.

2.5 For products offering different currencies, the fulfillment ratios may be grouped together if the differences in ratios are considered to be immaterial. In addition, for policies with policy options chosen by customers (e.g. automatic indexation of sum assured), authorized insurers are required to disclose fulfillment ratios for the basic plan only, regardless of the policy option chosen by customers.

General calculation requirements

- 2.6 Fulfillment ratios must be calculated and shown for each of the last 10 policy years of the reporting year, while the fulfillment ratios beyond 10 policy years may be grouped together by accumulated non-guaranteed dividends/bonuses.
- 2.7 In calculating fulfillment ratios, all relevant policies should be included. In case the fulfillment ratios are similar with immaterial difference among all relevant policies in the same product series, authorized insurers may use a representative modal point to calculate the fulfillment ratios. In addition, the actual amounts should be calculated up to the respective policy anniversary and be consistent with the illustration basis.
- 2.8 Given the different nature of annual dividends, reversionary bonuses and terminal dividends/bonuses, authorized insurers should separately disclose the fulfillment ratios for each of the annual dividends, reversionary bonuses and terminal dividends/bonuses.

Specific calculation requirements for annual dividends

- 2.9 The fulfillment ratio for annual dividends is calculated as the ratio of aggregate actual accumulated non-guaranteed annual dividends (including actual dividend accumulation interest but excluding terminal dividends, if applicable) against the aggregate illustrated amounts for non-guaranteed annual dividends provided to customers at the point of sale, for all relevant inforce policies.
- 2.10 During the policy lifetime, policyholders may opt to cash out all or a portion of the accumulated dividends or leave the dividends with the authorized insurer to earn interest. For the purpose of calculation of fulfillment ratios, it should be assumed that policyholders opted to leave all declared dividends with the authorized insurer for interest accumulation based on the relevant actual interest rates.
- 2.11 For products offering non-guaranteed monthly incomes, authorized insurers should include all non-guaranteed components of the policies in the calculation of fulfillment ratios, such as accumulated dividends during accumulation phase, accumulated non-guaranteed interest on guaranteed monthly incomes left on deposit, etc. Similar to annual dividends, policyholders may opt to withdraw monthly incomes or leave the monthly incomes with the authorized insurer to earn interest. For the purpose of calculation of fulfillment ratios, it should be assumed that policyholders opted to leave all monthly incomes with the authorized insurer for interest accumulation based on the relevant actual interest rates.

Specific calculation requirements for reversionary bonuses

- 2.12 The fulfillment ratio for reversionary bonuses is calculated as the ratio of the aggregate actual accumulated non-guaranteed reversionary bonuses (excluding terminal bonuses, if applicable) against the aggregate illustrated amounts for non-guaranteed reversionary bonuses provided to customers at the point of sale, for all relevant inforce policies and all relevant policies terminated in the reporting year. In general, cash value of reversionary bonuses should be used to calculate the fulfillment ratio for reversionary bonuses. If authorized insurers wish to use the face value of the reversionary bonuses to calculate the fulfillment ratio for policies terminated (with face value paid) in the reporting year, they should ensure that such calculation and disclosure are not misleading and the basis for such calculation is consistently applied and clearly disclosed. Authorized insurers may consider calculating (a) the fulfillment ratio for the relevant policies using cash value, and (b) the fulfillment ratio for policies terminated (with face value paid) in the reporting year using face value, and disclose the two ratios separately.

Specific calculation requirements for terminal dividends/bonuses

- 2.13 The fulfillment ratio for terminal dividends/bonuses is calculated as the ratio of the aggregate payout of non-guaranteed terminal dividends/bonuses (if applicable) against the aggregate illustrated amounts for non-guaranteed terminal dividends/bonuses provided to customers at the point of sale, for all relevant policies terminated in the reporting year. In general, cash value of terminal dividends/bonuses should be used to calculate the fulfillment ratio for terminal dividends/bonuses. If authorized insurers wish to use the face value of the terminal dividends/bonuses to calculate the fulfillment ratio for policies terminated (with face value paid) in the reporting year, they should ensure that such calculation and disclosure are not misleading and the basis for such calculation is consistently applied and clearly disclosed. Authorized insurers may consider calculating (a) the fulfillment ratio for the relevant policies terminated in the reporting year using cash value, and (b) the fulfillment ratio for policies terminated (with face value paid) in the reporting year using face value, and disclose the two ratios separately.

Illustrative examples

- 2.14 The following examples serve to illustrate the application of the requirements for calculating and disclosing fulfillment ratios in respect of three different participating product series.

Assume that:

- The current reporting year is 2022;
- Product series A had new policies issued in 2009 only;

- Product series B has new policies issued since 2006. This includes policies issued prior to 2010, but which are still in force in the current reporting year; and
- Product series C has new policies issued since 2012 and still has policies in force in the current reporting year.

In accordance with paragraph 2.2 above, Product series A is not an in-scope participating product series, as it does not have any new policies issued in 2010 or after.

While Product series B is an in-scope participating product series with new policies issued since 2010 and still has policies in force in the current reporting year, in accordance with paragraph 2.2 above, policies issued between 2006 and 2009 of Product series B are not required to be included in the calculation and disclosure of fulfillment ratios. In addition, in accordance with paragraph 2.6 above, the fulfillment ratios do not have to be calculated and disclosed by policy year in respect to policies issued between 2010 and 2011 (because as at the reporting year 2022, those policies are over 10 years old). Instead, the fulfillment ratios for policies issued between 2010 and 2011 may be grouped together by accumulated non-guaranteed dividends/bonuses.

Therefore, the fulfillment ratios may be disclosed as follows:

Product series	Product type	Fulfillment ratios for annual dividends for reporting year 2022				
		Policy year 1	Policy year 2	...	Policy year 10	Policy year 10+
Product series B	Participating whole life	[]% (policies issued in 2021)	[]% (policies issued in 2020)	...	[]% (policies issued in 2012)	[]% (policies issued in 2010-2011)
Product series C	Participating whole life	[]% (policies issued in 2021)	[]% (policies issued in 2020)	...	[]% (policies issued in 2012)	N/A

Note: The wordings in brackets above are clarification notes only and need not be included in the disclosure table.

3. CALCULATION OF HISTORICAL CREDITING INTEREST RATES FOR UNIVERSAL LIFE PRODUCTS

- 3.1 Pursuant to paragraph 4.2 of Appendix 2 to GL16, authorized insurers are required to disclose the historical crediting interest rates for each product series of universal life products. The minimum standards of disclosure expected by the IA in relation to the disclosure obligations in paragraph 4.2 of Appendix 2 to GL16 are set out in sections 3, 4 and 5 of these Interpretations Notes.

In-scope universal life product series

- 3.2 Unless otherwise agreed by the IA under paragraph 3.3 below, an authorized insurer is required to calculate and disclose each year the historical crediting interest rates for each of universal life product series for which (a) it has issued new policies since 2010, and (b) it still has policies inforce in the reporting year (“in-scope universal life product series”). For the avoidance of doubt, where an in-scope universal life product series contains policies issued before 2010, those policies are not required to be included in the calculation and disclosure of the historical crediting interest rates for the universal life product series.
- 3.3 An authorized insurer may apply in writing to the IA for an exemption from the requirement to calculate and disclose the historical crediting interest rates in respect a particular in-scope universal life product series. The IA may grant such exemption if the authorized insurer demonstrates to the satisfaction of the IA that calculating and disclosing the historical crediting interest rates in relation to that particular universal life product series is no longer of value to the customers (e.g. the authorized insurer is running off its business and is no longer accepting any new business etc.).
- 3.4 Products with the same features but different pricing information (e.g. different level of cost of insurance rates, policy administration fees, premium rates, etc.) may be grouped together and regarded as products within the same in-scope universal life product series.
- 3.5 For products offering different currencies, the crediting interest rates may be grouped together if the differences in crediting interest rates are considered to be immaterial.

General calculation requirements

- 3.6 For each in-scope universal life product series, an authorized insurer is required to calculate and disclose the crediting interest rates for at least each of the last 10 calendar years.
- 3.7 In calculating the crediting interest rates for each calendar year, all relevant inforce policies in that calendar year (which may be in different policy years) should be included. The crediting interest rate is calculated as an average weighted by account balances of all the relevant inforce policies.
- 3.8 Where the crediting interest rates are declared more than once in a calendar year, a time-weighted crediting interest rate for such policy should be used in the calculation.
- 3.9 One-off bonus interests credited to policies (e.g. loyalty bonus) should not be included in the calculation and disclosure of historical crediting interest rates.

Illustrative examples

3.10 The following examples serve to illustrate how the calculation and disclosure requirements for historical crediting interest rates apply to three different universal life product series.

Assume that:

- The current reporting year is 2022;
- Product series D had new policies issued in 2009 only;
- Product series E had new policies issued between 2006 and 2012. This includes policies issued prior to 2010, but which are still in force in the current reporting year;
- Product series F had new policies issued since 2019 and still has policies in force in the current reporting year.

In accordance with paragraph 3.2 above, Product series D is not an in-scope universal life product series, as it does not have any new policies issued in 2010 or after.

While Product series E is an in-scope universal life product series with new policies issued since 2010 and still has policies in force in the current reporting year, in accordance with paragraph 3.2 above, policies issued between 2006 and 2009 of Product series E are not required to be included in the calculation and disclosure of historical crediting interest rates. Therefore, the historical crediting interest rates may be disclosed as follows:

Universal life product series	Crediting interest rates for reporting year 2022				
	2013	2014	...	2021	2022
Product series E (only policies issued between 2010-2012 are required)	% ¹	%	...	%	%
Product series F (all policies)	N/A	N/A	...	%	%

Note: The wordings in the brackets are clarification notes only and need not be included in the disclosure table.

¹ Assume further that for Product series E:

- Policies issued in 2010 have account balance of 1,000 with crediting interest rate of 3.5% in 2013;
- Policies issued in 2011 have account balance of 2,000 with crediting interest rate of 4% in 2013; and
- Policies issued in 2012 have account balance of 3,000 with crediting interest rate of 4.5% in 2013.

In accordance with paragraph 3.7 above, the crediting interest rate for Product series E in 2013 will be calculated as $(3.5\% \times 1,000 + 4\% \times 2,000 + 4.5\% \times 3,000) / (1,000 + 2,000 + 3,000) = 4.17\%$.

4. DISCLOSURE

- 4.1 An authorized insurer should disclose on its company website the fulfillment ratios for participating products and the historical crediting interest rates for universal life products.
- 4.2 The website address that shows these fulfillment ratios and historical crediting interest rates should be prominently featured in the product brochure and benefit illustration.
- 4.3 Authorized insurers should state clearly on its website the criteria used for determining the policies included and excluded in an in-scope product series for the purposes of calculating the fulfillment ratios disclosed and calculating the historical crediting interest rates disclosed (i.e. the criteria in paragraphs 2.2 to 2.3 above and paragraphs 3.2 to 3.3 above) and any exempted policies. Authorized insurers should also include a statement that historical dividends/bonuses/crediting interest rates are not an indicator of future declaration of the insurance products.
- 4.4 To facilitate the public's understanding, where "N/A" or "not applicable" appears in a disclosure table of fulfillment ratios or historical crediting interest rates, the authorized insurer must give specific reasons as to why it is not applicable. For example, "the value is not applicable because no relevant policy is terminated in that year".
- 4.5 To avoid confusion to the general public, authorized insurers should use the following standard terms: (a) "fulfillment ratio" ("分紅實現率" in Chinese) and (b) "historical crediting interest rates" ("過往派息率" in Chinese) in all its disclosure and correspondence with the policyholders.
- 4.6 Authorized insurers should publish ongoing updated disclosure of fulfillment ratios and historical crediting interest rates, no later than 30 June of each calendar year.

5. DUTIES OF THE AUTHORIZED INSURER

- 5.1 It is the duty of the authorized insurer to ensure that the calculation of fulfillment ratios for participating products and historical crediting interest rates for universal life products follows the prescribed methodology in these Interpretation Notes, uses sound actuarial principles (if applicable), and that the calculation is accurate and not misleading.
- 5.2 The IA will carry out random audit from time to time, with or without prior notice, to verify whether the requirements in these Interpretation Notes are being followed. In examining whether the prescribed methodology has been duly followed and whether certain products should be subject to the requirements, the

IA will consider the substance and nature of the subject matter (rather than form or name).

6. EFFECTIVE DATE

- 6.1 These Interpretation Notes shall take effect starting from **1 January 2024**, and (on and from that date) replace the circular issued by the IA on 18 September 2015 regarding Fulfillment Ratios & Historical Crediting Interest Rates – Guide on Calculation Methodology and Disclosure Format [ref: INS/TEC/3/44].
- 6.2 For the avoidance of doubt, these Interpretation Notes are applicable to the disclosure of fulfillment ratios and historical crediting interest rates for the reporting year 2023 and each reporting year thereafter. Disclosure in respect to the reporting year 2023 should be made no later than 30 June 2024.

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