**Interpretation notes**
**Guideline on Benefit Illustrations for Long Term Insurance Policies (GL28)**

The Insurance Authority ("IA") issues these Interpretation Notes with the aim of providing further guidance to authorized insurers in respect of the Guideline on Benefit Illustrations for Long Term Insurance Policies (GL28) (the "Guideline").

These Interpretation Notes are not intended to be a comprehensive guide and do not constitute legal advice. Authorized insurers are advised to seek professional legal advice if they have any questions relating to the application or interpretation of the relevant provisions of the Guideline.

These Interpretation Notes do not have the force of law and should not be interpreted in a way that would override the provision of any law. 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 Guideline.

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| | | **Scope and Application** |
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| Q1 | | Is benefit illustration required to be provided for top-up application? |
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| A1 | | In general, top-up is regarded as an optional product feature, and therefore pursuant to paragraph 6.1, insurers may provide supplementary illustrations in relation to such optional product feature. That said, if the design of a product will most likely render a customer to choose top-up (for example, to keep the policy sustainable) or if top-up is mandatory under the design of the product, insurers should provide benefit illustration for such top-up application. Insurer should also consider providing supplementary illustrations of the top-up option for all customers applying for top-up application if the on-going product due diligence reveals a significant number of customers have taken up the top-up option. |
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| Q2 | | Referring to paragraph 4.2 of the Guideline, please clarify if there is any minimum requirement to classify a product as having refundable feature. For example, does a product refunding 30% (or even smaller) of total premium paid fall into the scope? |

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| A2 | | Policies with any refundable amounts are regarded as with cash value, therefore will fall in the scope of the Guideline. Also, in assessing whether an insurance policy as having refundable feature, insurers should consider substance over form. |
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| Q3 | | Referring to paragraph 4.3 of the Guideline, inforce re-projection illustrations are optional for non-participating policies. Please clarify whether an inforce re-projection illustration is mandatory for a non-participating product with all benefit values guaranteed when the customer elects a premium prepayment option that the prepaid premiums will be accumulated at non-guaranteed interest rates or a non-guaranteed charge will be imposed for early withdrawal of prepayment. |
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| A3 | | Premium prepayment option under non-participating product itself would not be regarded as a participating product and hence would not be subject to the relevant requirements under the Guideline. Having said that, insurers should show clearly and properly any non-guaranteed element(s) of the prepayment option (such as accumulated interest rates and administration charges upon the withdrawal) when insurers choose to provide an illustration of this option. |
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| | | **<u>Signature Requirements</u>** |
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| Q4 | | Referring to paragraph 5.5 of the Guideline, please clarify if insurers are required to seek the IA's approval prior to adopting any digital verification technology. |
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| A4 | | Insurers are not required to obtain the IA's prior approval for adopting any digital signature or other similar signature verification technology. However, if and when requested by the IA, insurers are required to demonstrate that they have sufficient and adequate security control in place for the use of such technology. |
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| | | **<u>Policy Loans</u>** |
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| Q5 | | Referring to paragraph 6.3 of the Guideline, please clarify what are acceptable means of delivering the "Alert Notice" (e.g. physical, |

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| | | electronic, verbal, or any other means as deemed appropriate by authorized insurers). |
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| A5 | | The IA does not prescribe any means of delivering the "Alert Notice". However, the "Alert Notice" should be legible and delivered in written form, and be documented and retrievable by insurers when required. |
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| Q6 | | Referring to paragraph 6.3 of the Guideline, please provide further guidance / template of the fields required for the "Alert Notice". It states that "Alert Notice should be provided when issuing regular anniversary statement related to a policy in respect of which a policy loan has been drawn up", do we need to add the lapsation timeline in the Alert Notice? Is it required to call such note "Alert Notice" in the supplementary illustration? |
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| A6 | | The Alert Notice should include information on lapsation risk, expected timeline leading to policy lapsation (save in the case of ILAS policies) and the right to request for re-projection of policy loan amount. While it is not necessary to name such note an "Alert Notice", the note should serve the purpose of alerting the customers effectively and the information therein should be shown prominently to alert the customers. |
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| | | **Customization** |
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| Q7 | | Referring to paragraph 7.1 of the Guideline, please clarify if insurers are required to seek (prior) approval from the IA on the customization of BI? |
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| A7 | | Insurers are not required to obtain prior approval from the IA on their customization of benefits illustration documents. However, they must ensure that the customization complies with all the requirements set out in paragraphs 7.1-7.4 of the Guideline. |
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| Q8 | | Referring to paragraph 7.2 of the Guideline, please provide some examples of information not to be "relevant" and "value to customers", which depend on customer's judgment. This may discourage authorized insurer to disclose more information to minimize the chance of breaching this Guideline. |

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| A8 | | It has come to the IA's notice that some insurers are displaying numbers in the benefit illustration documents which are used for calculating the production volume of the company but cannot be tied to any policy values. Those numbers are considered to be not relevant to the customers and therefore need not be shown in the benefit illustration documents. |
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| Q9 | | Referring to paragraph 7.4 of the Guideline, please clarify whether underlining lapsation timeline and ILAS's warning statement (which is not a guaranteed figure) is permitted. |
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| A9 | | The spirit of paragraph 7.4 is to deter insurers from exaggerating the non-guaranteed benefits. For the avoidance of doubt, insurers can highlight information that concerns the customers' risk exposure. |
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| | | **Documentation** |
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| Q10 | | Please clarify if only the Standard Illustration signed by customers (but not supplementary illustration) is to be recorded by insurers. |
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| A10 | | Authorized insurers should at least keep proper record of the Standard Illustrations signed by the customers and any supplementary illustrations provided to/ signed by customers which illustrate the optional features that customers have elected for their policies at the time of providing such supplementary illustrations, such that authorized insurers could retrieve these records when required. |
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| | | **Transitional Arrangement** |
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| Q11 | | Will the transitional arrangement apply to new authorized insurers? |
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| A11 | | With the consideration that insurers may require time to update their documentation, controls and processes, a transitional period of 12 months from the Effective Date has been given to all authorized insurers in respect of the application of certain requirements of the Guideline, so that they may continue using the existing illustration document templates for soliciting new policies provided that the policies are issued prior to the expiry of the Transitional Period. New |

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| | | insurers authorized on or after the Effective Date are less likely to have those legacy issues and hence they are generally expected to use the new illustration document templates. |
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| | | **<u>Benefit Illustration Documents for ILAS Policies</u>** |
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| Q12 | | What are the requirements and arrangements in respect of revisions to existing SFC-authorized ILAS illustration document templates that are made solely pursuant to Appendix I to the Guideline? |
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| A12 | | Prior approval is not required from the SFC in respect of revisions to existing SFC-authorized ILAS illustration document templates that are made solely to reflect the requirements set out in Appendix I to the Guideline. Nevertheless, authorized insurers must file the revised ILAS illustration document templates with the SFC within one week from the date of adoption. Please refer to Question 14A of Section 1 of the Frequently Asked Questions relating to ILAS issued by the SFC for more details. |
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| Q13 | | Can a separate table be used to show account values only for rate of return of 0%, 3%, 6% and 9% (without illustrating surrender values and death benefits in the same table)? |
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| A13 | | No. |
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| Q14 | | Referring to paragraph 3.2 of Appendix I of the Guideline, are insurers allowed to illustrate the number of policy years higher than the customer's age at one-hundred (100)? |
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| A14 | | Insurers can illustrate the number of policy years higher than the customer's age at one-hundred (100) <u>if and only if</u> the maturity of the policy is higher than age at 100 by showing at least a 5-year interval until the age at maturity. For whole life products without definite maturity, insurers may form their own views on the expected maturity with reasonable explanation. |
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| | | **<u>Benefit Illustration Documents for Participating Policies</u>** |
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| Q15 | | If authorized insurers have chosen to illustrate benefit values with |

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| | | investment return assumption lower than the best estimate, should the 25th and 75th percentiles be derived based on this lower illustrated return or the best estimate return? |
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| A15 | | Insurers can illustrate values lower than the 25th and values not higher than the 75th percentiles derived based on the best estimate return for pessimistic and optimistic scenarios respectively. |
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| Q16 | | Referring to paragraph 3.4 of Appendix II of the Guideline, illustration of pessimistic and optimistic scenarios for supplementary illustration and inforce re-projection illustration is optional. Where an insurer opts to illustrate the supplementary illustrations (e.g. withdrawal illustration) with the pessimistic scenario, please clarify:<br>(a) whether or not the health warning for pessimistic scenario is required to be provided for the supplementary illustration, and<br>(b) if the answer is "yes", whether the health warning must be placed at the top of the supplementary illustration table or may be disclosed as part of the explanatory notes instead. |
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| A16 | | In general, the supplementary illustration should follow standard illustration as stated in paragraph 5.2 and paragraph 7.3 of the Guideline, therefore the health warning should be placed at the top of the illustration. |
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| Q17 | | Referring to paragraph 3.5(d) of Appendix II of the Guideline, please clarify that for policies with whole life coverage where there is no maturity date under the policy, this requirement should not apply and the illustration of benefits should be shown up to age 100. |
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| A17 | | For whole life products without definite maturity, the insurer can have its own view on the expected maturity with reasonable explanation. |
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| Q18 | | Please clearly define what to display for the field of "[Initial] Sum Assured / Protection Amount", especially on initial protection amount for products with insignificant sum insured (for example, savings product offering 105% of total premium paid as death benefit). |
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| A18 | | For products which do not contain significant protection elements, the field of "[Initial] Sum Assured / Protection Amount" should show the |

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| | | initial death benefit (i.e. death benefit amount at policy commencement) or it may state “not applicable”. |
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| | | **<u>Benefit Illustration Documents for Universal Life (Non-Linked) Policies</u>** |
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| Q19 | | Please clarify, in cases where there is no change in fees and charges scale since point-of-sale, whether it is optional to not repeat the same table in inforce re-projection illustration. |
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| A19 | | Yes, it is optional but the insurers should state in the inforce re-projection illustration that there is no change in fees and charges scale since point-of-sale. |
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| Q20 | | Please clarify if it is optional to show the fees and charges for past policy years in the inforce re-projection illustration. The fees and charges are already reflected in the current policy value. |
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| A20 | | Yes, it is optional. |
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| Q21 | | If authorized insurers have chosen to illustrate benefit values with investment return assumption lower than the best estimate, should the 25th and 75th percentiles be derived based on this lower illustrated return or the best estimate return? |
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| A21 | | Insurers can illustrate values lower than the 25th and values not higher than the 75th percentiles derived based on the best estimate return for pessimistic and optimistic scenarios respectively. |
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| | | **<u>Benefits Illustration for Non-Participating Policies</u>** |
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| Q22 | | The proposed illustration summary covers surrender benefit and death benefit, both of which will be relatively small for a medical protection product. Illustrated benefits therefore might not be meaningful and potential customers may underestimate the value of the policy. Hence, please clarify if the Guideline applies to medical products. |
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| A22 | | As long as the policies are with cash value, they should fall within the scope of the Guideline. |

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| Q23 | | Term insurance plans and refundable term insurance plans should fall into the category of "Non-Participating Policies". For refundable term insurance plans, can the column of "Guaranteed Surrender Value" be renamed as "Refundable Amount or Percentage" for clearer meaning of the terminology? |
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| A23 | | No, the term should be consistent with other non-participating products. |
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