# ADDITIONAL GUIDELINE ON
# AGN 5: PRINCIPLES OF LIFE INSURANCE POLICY ILLUSTRATIONS

## Introduction

In 2006, the ASHK Life Insurance Committee conducted a survey regarding the benefit illustration of investment-linked products. The results showed that currently there are a variety of approaches to the interpretation of the assumed growth rate used in the calculation of the illustration. The Life Insurance Committee concluded that there is a need for more consistency in the advice provided by Appointed Actuaries and has produced this guideline as additional guidance for AGN5.

This guideline should apply to sales material issued after 30 April 2009 and to all sales material used after 30 August 2009. Earlier compliance is encouraged. The actuary should indicate compliance with this guideline in the annual Actuarial Report provided to the office of the Commissioner of Insurance, beginning with the first report issued in 2009.

## Guideline

Whilst SFC requires the Appointed Actuary to approve the returns assumed for illustration values, the illustration values at 2 rates of return should not be greater than the values which would result from using the investment return of 5% or 9% ("assumed return").

The assumed return is after deduction of the Fund Management Fees retained by underlying fund manager(s). Additional mirror fund charges and special unit charges retained by insurance companies or investment related expenses that are charged at the policy level should be deducted after the assumed return has been determined.

Where the unit manager is not at arms length, the Appointed Actuary should take extra care to ensure that the Fund Management Fees deducted when determining the assumed return are a fair representation of market fees. If the fee is higher than the market fee then the excess should be deducted after the assumed return has been determined.

The Appointed Actuary should then check the illustrations and where appropriate reduce the illustration amounts to ensure that:

1. Products with higher product fees have lower benefit illustrations than products with lower fees; and
2. Unit fund performance is not product dependent. The same unit fund with the same fees should have the same assumed return, even in different products.