

BY EMAIL ONLY

Members' Undertaking No. 74  
17 September 2020

To: All Ordinary and Associate Members

MU 74/20 - DISCLOSURE GUIDELINES (INCLUDING 'TWO ILLUSTRATED RATES') FOR PRODUCT SUMMARY, POINT OF SALE DOCUMENTS AND ANY MARKETING MATERIALS PRESENTED TO CONSUMERS

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**ACTION:**

1. MC 44/18 OF 5 APRIL 2018 AND MU 74/19 OF 16 AUGUST 2019 ARE REPLACED BY THIS MU 74/20.
2. MC 46/03 OF 20 MARCH 2003 HAS BEEN INCORPORATED IN THIS MU, AND IS THEREFORE CANCELLED.
3. FOR PARTICIPATING PRODUCTS, ADDED CALCULATION BASIS FOR NET INVESTMENT RETURN AND TOTAL EXPENSE RATIO DISCLOSURES REQUIRED UNDER MAS 320.
4. 'TWO ILLUSTRATED RATES' REQUIREMENT (WHERE APPLICABLE) IS TO BE IMPLEMENTED NO LATER THAN 31 DECEMBER 2019.
5. ALL MATERIALS PRESENTED TO CONSUMERS MUST DISCLOSE THE TWO ILLUSTRATED RATES (WHERE APPLICABLE) FROM 1 JANUARY 2020.
6. ANY REMAINING NON-COMPLIANT MATERIALS PRESENTED TO CONSUMERS MUST BE WITHDRAWN BY 31 DECEMBER 2019.

**LIA SECRETARIAT**

## **DISCLOSURE GUIDELINES: PRODUCT SUMMARY**

[Note: Previously issued as MC 46/03 of 20 March 2003, minor edits have been made, for example to use the term “policy illustration” instead of “benefit illustration”, and sections no longer applicable have been deleted.]

- 1. FOR ORDINARY MEMBERS' COMPLIANCE**
- 2. FOR ASSOCIATE MEMBERS' INFORMATION**

The Product Summary (PS) has been revised, so as to be in compliance with the Notice FAA-N03 on information to clients and product information disclosure.

The revised PS is set out in the following pages.

### **PREAMBLE**

- Insurers are advised to ensure their companies' full implementation of and compliance with MAS Notice 318, which makes reference to the substantive requirements of the Notice FAA-N03 on information to clients and product information disclosure.
- The contents of the Product Summary (PS) are revised so as to be in compliance with the Notice FAA-N03.
- This undertaking also provides guidance on where (i.e. in which document) the various disclosure items under Notice FAA-N03 are to be stated or disclosed, as follows:

### **TO BE STATED IN YOUR GUIDE TO LIFE INSURANCE (YGTLI)**

#### **Contents include:**

Designated Investment Products

24 (c) Contractual rights

24 (d) Client profile

24 (j) Reports to the client

24 (k) Free-look period for life policies

### **TO BE STATED IN PRODUCT SUMMARY**

#### **Administration**

- It is for the insurer to determine how the PS should be presented / printed, bearing in mind that there are different types of products to be considered:
  - One PS version for investment-linked products; and

- One PS version for participating products.
- OR
- One PS version for both investment-linked products and participating products.

- The order or sequence of the following items is to be determined by the insurer.

**Contents include:**

Designated Investment Products (under FAA-N03)

24 (a) Nature and objective of the product

1. No LIA-prescribed wordings.
2. Where there are unusual features which might affect the returns on a policy, for example, policies with high terminal bonus, the prospective buyers must be made aware of the long term bias of the product.

24 (b) Details of the product provider

1. No LIA-prescribed wordings.

24 (e) Commitment required from the client

1. If the premium rate is guaranteed, there are no LIA-prescribed wordings, but the insurer must state that the premium rate is guaranteed in its own wordings.
2. If the premium rate is not guaranteed, the LIA-prescribed wordings are as follows:

Please note that premium rates / charges for X, Y and Z are not guaranteed. These rates may be adjusted based on future experience.

24 (f) Benefits of the product (in respect of the policy)

1. No LIA-prescribed wordings.
2. If there are exclusions, the insurer must state them.
3. The insurer may state the current rates of bonus being paid. Where non-guaranteed benefits are presented, the rates of bonus used must be stated explicitly together with a warning that the bonus rates and therefore the benefits illustrated can vary depending on the future experience of the fund.

24 (h) Pricing of the product

No LIA-prescribed wordings.

24 (i) Fees and charges to be borne by the client

1. No LIA-prescribed wordings.

24 (m) Withdrawal, surrender or claim

No LIA-prescribed wordings.

24 (n) Warnings, exclusions and disclaimers (in relation to product)

No LIA-prescribed wordings.

**Participating Products (under MAS Notice 320)**

Under MAS 320, Appendix B Investment of Assets, paragraph 12, the Annual Net Investment Return and the Annual Total Expense Ratios are required to be disclosed. For the calculation basis, please refer to the following

- (a) Annual Net Investment Return – please refer to MU2218 (Appendix II: Basis to determine investment return)
- (b) Annual Total Expense Ratio – please refer to MU2218 (Appendix III: Basis to determine Total Expense Ratio (TER))

**DISCLOSURE GUIDELINES: REQUIREMENT TO DISCLOSE / ILLUSTRATE IN ALL MATERIALS PRESENTED TO CONSUMERS THE TWO INVESTMENT RATES OF RETURN AS USED IN THE POLICY ILLUSTRATION WHERE APPLICABLE**

**SCOPE OF APPLICATION**

**Qualification**

1. This requirement applies to any product where there are non-guaranteed benefits that vary with investment rates of return. Some examples would include participating products, investment-linked products and some non-participating products (e.g. universal life).

**Type of documents**

2. Any material presented to consumers in all forms, such as print, softcopy, digital or any other form, including the following:
  - (1) Product Summary;
  - (2) Point of sale documents;
  - (3) Marketing materials such as brochure, factsheet, FAQ, etc.; and
  - (4) Any other material presented to consumers.

**PRINCIPLES**

3. In principle, where insurers choose to disclose illustrated values generated by one PI rate in any material presented to consumers, the disclosure of two PI rates is required to ensure fair and consistent illustration of policy benefits across insurers and to highlight the volatility of the non-guaranteed benefits, thereby better managing consumers' expectations.
4. If any customer values or yield or rates or metrics, including re-deposit rates, that vary with investment rate of return is disclosed in any material presented to consumers, it is expected that the insurer will disclose the corresponding customer values or yield or rates or metrics under both the upper and lower PI investment rates of return.

**Par products**

5. Where insurers disclose the bonus scale in any material, which is typically illustrated in the PI as the upper investment rate of return scenario, if the bonus scale on the lower investment rate of return scenario is not shown together with the bonus scale of the upper investment rate of return scenario on the material, the standard wordings in the box below are to be used
6. The standard wordings are denoted in *dark red italic font*. Wording in square brackets and highlighted in yellow can be customized by the insurer. For example, flexibility is given to use the applicable terminology - Reversionary Bonus/ Cash Dividend/ Terminal Bonus/ Terminal Dividend/ Any equivalent terminology to denote bonus or dividend.
7. The actual illustrated investment rate of return used for the product should be reflected, for example some products could be illustrated at lower than the cap of the upper or lower investment rate of return stated in the LIA illustration guidelines.

[Company's own description of bonus rates, for example

At an illustrated Investment Rate of Return of 4.75% per annum, the illustrated RB rate is as follows:

From end of policy year 3 onwards \$8 per \$1,000 Insured Amount, compounding at 0.8%]

*In comparison, at an illustrated [Investment Rate of Return/ investment rate of return] of [actual lower PI rate, e.g. 3.25%] per annum, the [bonus rates/ reversionary bonus rates/ terminal bonus rates/ dividend rates/ cash dividend rates/ annual dividend rates/ terminal dividend rates/ yearly bonus/ (any equivalent terminology to denote bonus or dividend)] [is/are] expected to be adjusted downwards depending on the future outlook of the Participating Fund.*

*Please refer to the policy illustration for the [bonus] amount at the illustrated [Investment Rate of Return/ investment rate of return] of [actual lower PI rate, e.g. 3.25%] per annum and [actual upper PI rate, e.g. 4.75%] per annum respectively. The two rates are used purely for illustrative purposes and do not represent upper and lower limits of the investment performance of the Participating Fund.*

8. For avoidance of doubt, this standard disclosure wording **ONLY** applies to bonus scale disclosure for **par products**, i.e. for reversionary bonus rates/ cash bonus rates / terminal bonus rates or other similar bonus rates. For other disclosed customer values including bonus values or yield or rates or metrics, including re-deposit rates, that varies with investment rate of return, it is expected that the insurer will disclose the corresponding values / yield /rates under both the PI upper and lower illustration investment rates of return.

❧ End ❧