

Comparing participating policies? Don't forget to check the fulfillment ratios.



Many insurance policies on the market are participating policies. The cash value of a participating policy includes guaranteed and non-guaranteed benefits (such as dividends or special bonuses). It is in the form of non-guaranteed benefits that profits from the policy are shared with the policyholder.

Do keep in mind, however, that the non-guaranteed benefits indicated on an insurance proposal are projections. The actual amounts paid can be higher or lower than the projected figures. Under the Insurance Authority's Guidance Note on Underwriting Long Term Insurance Business (other than Class C Business) (GL16), insurance companies are required to disclose the annual fulfillment ratios of all their participating products as indications of past performance for policyholders' reference.

How are the fulfillment ratios for non-guaranteed benefits calculated¹?



Non-guaranteed benefit fulfillment ratio



Actual amount of non-guaranteed benefit paid

Projected amount in insurance proposal

Dividend-paying performance changes under different circumstances, and the fulfillment ratio will vary accordingly.

Assuming a participating policy with the following details²:

Policy effective date: 2 March 2016
Policy name: ABC Participating Insurance Policy
Total premium paid: USD100,000
Premium payment period: 3 years

Policy year	Projected non-guaranteed benefit (USD)
1	4,000
2	10,000
3	18,000
4	19,000
5	21,000
6	30,000

Scenario 1

Projected non-guaranteed benefit at policy application:
USD30,000

Actual amount of non-guaranteed benefit paid:
USD32,700

Non-guaranteed benefit fulfillment ratio:
 $\frac{USD32,700}{USD30,000} = 109\%$

Scenario 2

Projected non-guaranteed benefit at policy application:
USD30,000

Actual amount of non-guaranteed benefit paid:
USD26,700

Non-guaranteed benefit fulfillment ratio:
 $\frac{USD26,700}{USD30,000} = 89\%$



Comparing the 2 scenarios (assuming the same plan and projected non-guaranteed benefit but different fulfillment ratios): In Scenario 1, the fulfillment ratio of ABC Participating Insurance Policy in 2022 is 109%, higher than the projection in the insurance proposal by 9%, or USD2,700. As for Scenario 2, the fulfillment ratio in 2022 is 89%, which results in USD3,300 less than projected in the insurance proposal.

Now let's take a look at 2 different plans - A and B:

Assumptions: Plan A and Plan B have different non-guaranteed benefits and fulfillment ratios. Plan A has a lower projected non-guaranteed benefit amount but a higher fulfillment ratio than Plan B. The resulting numbers demonstrate the key role played by the fulfillment ratio.

Assuming the projected non-guaranteed benefits of Plan A and Plan B (USD) are as follows²:

Policy year	Plan A	Plan B
6	50,000	60,000

Plan A

Projected non-guaranteed benefit at policy application:
USD50,000

Actual amount of non-guaranteed benefit paid:
USD54,500

Non-guaranteed benefit fulfillment ratio:

$$\frac{\text{USD54,500}}{\text{USD50,000}} = 109\%$$

Plan B

Projected non-guaranteed benefit at policy application:
USD60,000

Actual amount of non-guaranteed benefit paid:
USD52,800

Non-guaranteed benefit fulfillment ratio:

$$\frac{\text{USD52,800}}{\text{USD60,000}} = 88\%$$



A comparison of the 2 plans shows that, even though Plan A offers a smaller projected non-guaranteed benefit than Plan B, it has a higher fulfillment ratio. Plan A therefore ends up providing a higher actual non-guaranteed benefit amount, which illustrates the crucial difference made by the fulfillment ratio.

Research fulfillments ratios⁴ before choosing a plan

Before applying for a policy, be sure to look into the insurance company's past performance in paying non-guaranteed benefits. With a higher fulfillment ratio, a policy will have a better chance of accumulating a cash value that meets the policyholder's initial expectations. Comparing fulfillment ratios will therefore help you choose a plan that delivers the right protection as well as accumulated value. Reminder: past fulfillment performance should not be construed as an indication or prediction of future performance¹. For the fulfillment ratios of different HSBC Life insurance plans, please visit www.hsbc.com.hk/en-hk/misc/insurance/fulfillment-ratio.

Notes:

1. The non-guaranteed benefit(s) of a participating life insurance policy may change from time to time. The actual amount will be determined prior to the payment of a dividend or special bonus, if any. Past and present performance is not an indication or prediction of future performance, and a current fulfillment ratio does not represent future fulfillment ratios or strategies.
2. All numbers shown above are hypothetical and for illustrative purposes only.
3. The formula shown in the examples above is for reference and illustrative purposes only. The actual amount of the non-guaranteed benefit will be shown on your annual policy summary.
4. Insurance companies include all the policies under a given insurance plan that take effect during the same year in their calculations to arrive at the plan's fulfillment ratio for that year.

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