MILLIMAN RESEARCH REPORT

Participating business in Asia

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Table of contents

Introduction

Participating (par) insurance products represent a significant proportion of the life insurance business in many Asian markets. The contribution of participating products towards the overall business varies in each market and there are multiple reasons for this.

This report provides a comprehensive overview of par business across Asia, from three different perspectives:

1. **A regional view**, focusing on how countries compare with each other and identifying common themes across markets.
2. **A brief analysis of par by country**, highlighting the major issues, changes, and regulations that define the local business environment for par business today.
3. **A detailed country report** for selected par markets. In many Asian countries, insurance statistics for par business are either unavailable, compiled at a high level or spread across a number of different sources. To bridge these gaps, we have combined:
   - Secondary data from industry statistics and annual reports, merged with proxies where credible and relevant
   - Primary data from a survey of industry participants to add more qualitative analysis and to plug gaps in the secondary data
   - Experience of our consultants gained from working across the region

While universal life business is also a popular platform in Asia, and can often have many similarities with par business, we have not included such products in our study. Comments are restricted only to products classified as par in each country.

This report is an update to a previous report produced in 2016 and published in 2017 that builds on the previous report and which discusses the main changes observed in the seven years that have passed since.

The report has been written and compiled throughout 2023, with references to available market data that may not always be the most recently available as at the time of publication.

We hope you find the information helpful, and the analysis illuminating.

Executive summary

The status of par business varies between different markets in the region. At one end of the scale, par is still an important and material component of recent and expected future new business volumes in Hong Kong, Singapore, and China. At the other end of the spectrum, markets such as Malaysia and Vietnam have seen considerable contraction in the significance of par for new business volumes. Where par new business volumes are in decline, companies will need to consider how to manage their par funds as they contract over time.

Changes in regulations are also impacting par fund management in different markets. The updates to the risk based capital (RBC) framework in Singapore (RBC2) in 2020 created par fund management challenges for insurers there, particularly as it coincided with the onset of the COVID-19 pandemic. The imminent introduction of RBC in Hong Kong is also expected to impact on insurers par fund management, with a further shift to products with lower guarantees.

Changes in par fund management regulations are also expected to have implications on insurers in some markets. It is expected that Hong Kong is going to introduce requirements to segregate par funds into a separate par fund, which will bring it in line with China, India, Malaysia, Singapore, and Vietnam, where par fund segregation is already a requirement, although this is still going through industry review with no specific timescale. For other markets where fund segregation is not required, it is worth noting this general trend and considering that such requirements could come to them eventually. Malaysia continues to have the most active and prescriptive regulations in respect of par fund management, and there have been further updates to their Management of Participating Business regulations in 2023 (to take effect in 2024), with greater focus on par fund estates.

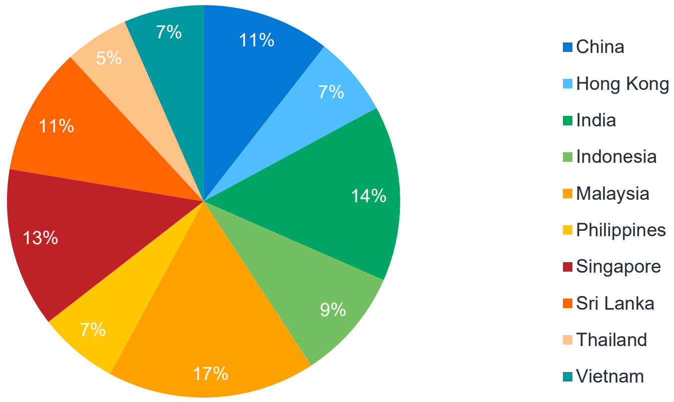
The recent economic volatility following the start of the COVID-19 pandemic and recent changes in interest rates have affected some markets more than others. Although 30% of the respondents to our survey indicated that their par fund bonuses have generally decreased over the period from 2020 to 2022, 59% said that they had generally stayed the same, and 11% even said that their bonuses had generally increased. The impact of the recent economic volatility has not, perhaps, then been as onerous on par business as we might have expected. We do note, however, that bonus management does vary quite significantly across markets, with companies in Hong Kong and Thailand appearing to more actively change bonus rates than companies in other markets, with bonus practices in Sri Lanka, Indonesia, and the Philippines tending to be quite static.

Participating business across the region

In many Asian countries, insurance statistics for par business are either not collected by regulators or industry groups, or are published at a high level only. In order to delve more deeply into par business, and to analyse more qualitative aspects, we have conducted a survey of 10 key par markets in Asia during the second quarter of 2023. We received 76 responses to our survey in total, with the breakdown of the markets that our survey respondents represent shown in Figure 1.

The following section provides highlights and key trends from the survey results. Given that a similar study was carried out in 2016, we also make comparisons to the prior survey results, where additional insights can be drawn from the changes in the survey results over this period.

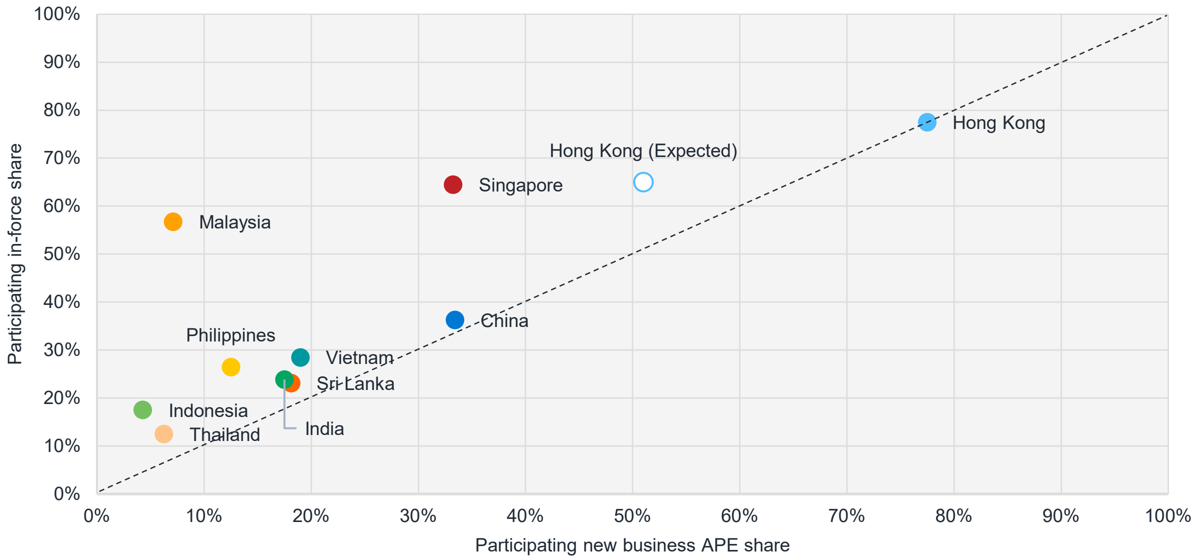
FIGURE 1: SURVEY REPRESENTATION BY COUNTRY



SHARE OF PAR BUSINESS BY NEW BUSINESS ANNUALISED PREMIUM EQUIVALENT (APE) AND IN-FORCE (IF)

Figure 2 illustrates the average estimated proportion of our respondents' in-force (in terms of statutory reserves) and new business (in terms of APE) portfolios that is par business. Where we see markets with a high proportion of par in the in-force portfolio, but a low proportion of new business, it can be a sign of a declining par market. When we compare to the results from our 2016 survey, we see that there has been a further decline in the proportion of par new business in Malaysia, which is consistent with our own experience. The survey results also appear to show a significant increase in the par proportion of both in-force and new business in Hong Kong; however, we also note the limited number of responses we had from Hong Kong in this year's survey, which we believe is distorting the results. We have, therefore, included a point in the chart showing our expected position for Hong Kong if we had received responses from a broader range of insurers, based on our understanding obtained by working with these companies. China and Sri Lanka have also both seen an increase in new business APE share, when compared to our 2016 survey.

FIGURE 2: AVERAGE PAR SHARE FROM SURVEY PARTICIPANTS

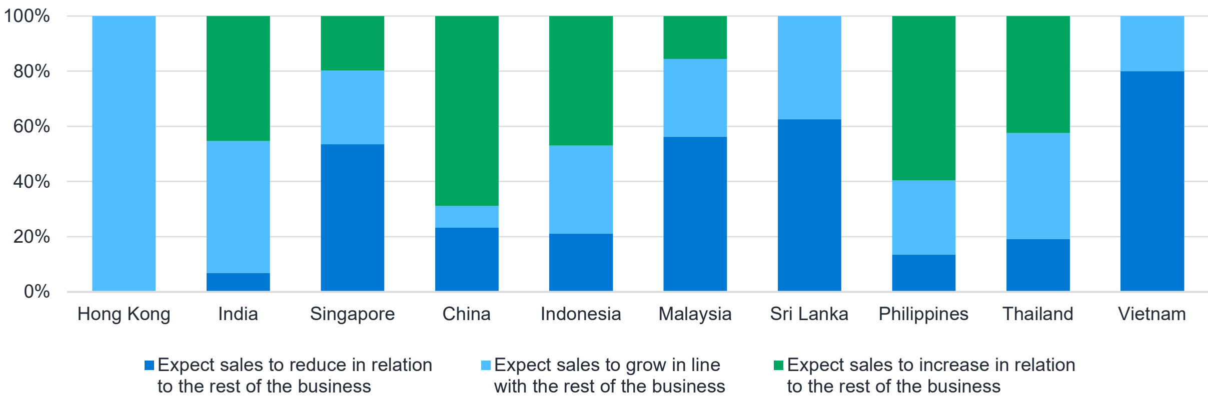


Although we see new business proportions of par business being less than in-force for all markets, indicating a downward trend in par business, this is a reflection of the current experience in relation to new business, which could change. We also know that there are some common challenges that insurers across Asia are facing, such as the recent rise in interest rates, changes to regulatory capital regimes and IFRS 17, and new product-specific regulations. These challenges could further restrict the sale and growth of new par business, but could equally be creating new opportunities for it to compete against other types of products that may be affected differently by these challenging conditions, which can vary by market. In the next section, we focus on the outlook for new par business.

EXPECTATIONS FOR THE GROWTH OF PAR RELATIVE TO THE REST OF THE BUSINESS

The chart in Figure 3 indicates results from our survey when participants were asked about their views on the outlook of par business in their company.

FIGURE 3: 'WHAT IS THE OUTLOOK FOR PARTICIPATING BUSINESS AT YOUR COMPANY?'



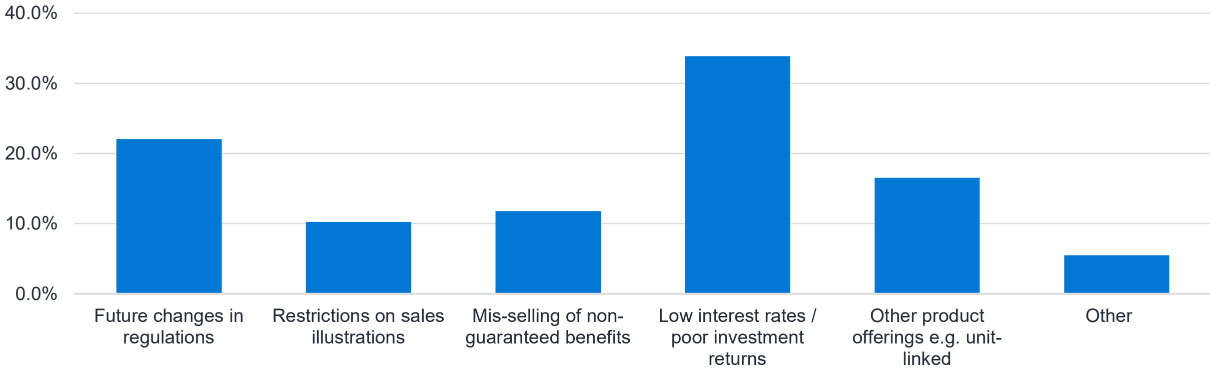
The results show that there is a broadly positive outlook for growth of par business in China, Indonesia, Philippines, India, and Thailand, but a broadly negative outlook for Vietnam, Sri Lanka, Malaysia, and Singapore. The negative outlooks in Malaysia and Vietnam are believed to be driven by the regulatory environments in these markets, making it challenging to manage and sell par business. In Singapore, restrictions on the investment return assumption used for par sales illustrations, challenges in managing volatility of par fund capital under RBC2, and increased competition from new products in light of the rising interest rates are expected to put pressure on the par proposition.

THREATS TO PAR BUSINESS AS A PRODUCT OFFERING AND CHALLENGES OF MANAGING EXISTING PAR BUSINESS

Questions on threats to the sales of par business and challenges on maintaining the in-force par business offer some insight into the general negative outlook for par business in some markets.

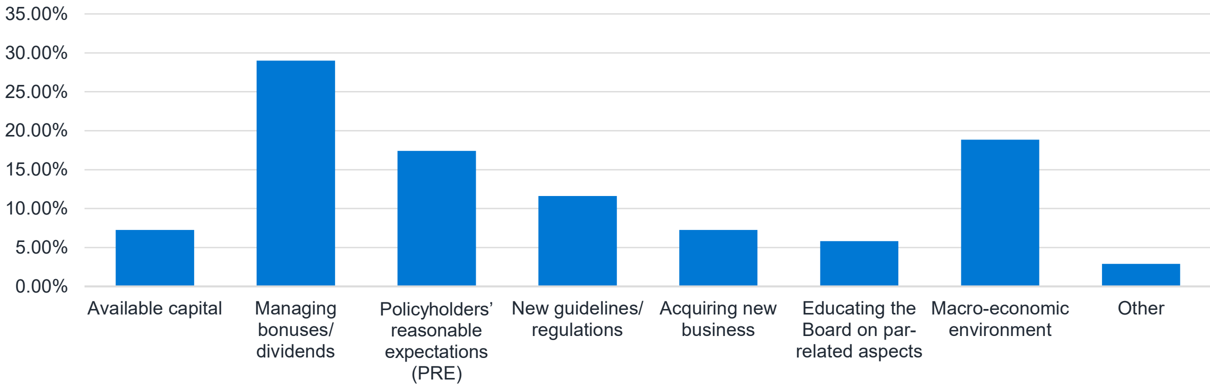
Similar to our findings in the 2016 survey, the majority of respondents see poor investment returns or the recurrence of a low interest rate environment as the top threat to par business as a product offering. In fact, the responses to this question are very similar to what we observed in the 2016 survey in general, suggesting that these are perennial issues for par business. The risk of poor investment returns and/or a reduced future outlook for investment returns puts pressure on the levels of non-guaranteed benefits that par products can offer, which in turn reduces its competitiveness as a product offering. Amongst the 'Other' threats highlighted by some respondents was the low new business margin on par business.

FIGURE 4: 'WHAT DO YOU SEE AS THE BIGGEST THREATS TO YOUR COMPANY'S SUCCESSFUL PAR PRODUCT OFFERING?'



When it comes to managing in-force par business, the results of our survey, as shown in Figure 5, indicate managing bonuses, maintaining PRE, and the uncertainty from the macro-economic environment as the top three challenges that insurers are experiencing. This is quite aligned with the threats to par business indicated in the previous question, as low interest rates and poor investment returns are key drivers for managing bonuses. Whilst macroeconomic environment challenges could be affecting several different product types, the challenges of managing bonuses and PRE tend to be more significant for par business than for other product lines.

FIGURE 5: 'WHAT DO YOU THINK ARE THE BIGGEST CHALLENGES FOR YOUR COMPANY IN MANAGING ITS EXISTING PAR BUSINESS GOING FORWARD?'



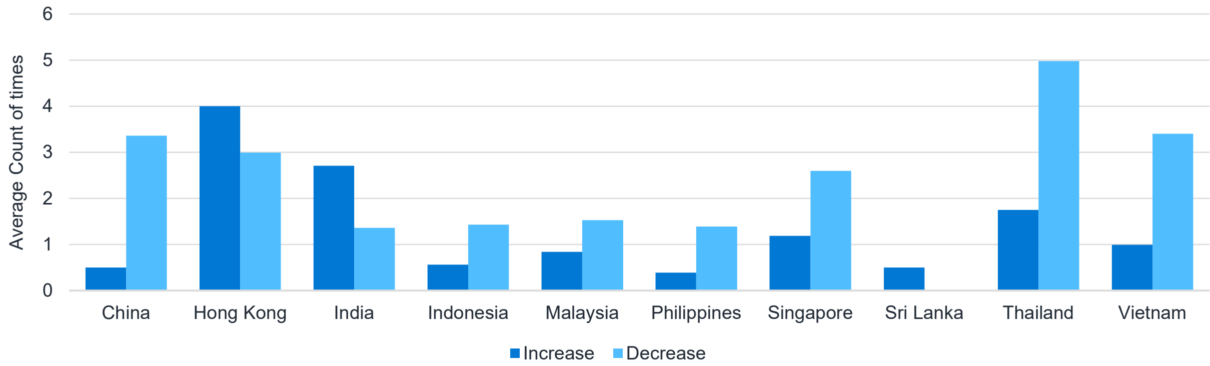
BONUS RATE MANAGEMENT

Approaches to manage bonus rates will differ between all companies, but we also find that there tend to be differences in how frequently bonus rates are adjusted in different markets. In the UK, bonuses for par business are very actively managed, with terminal bonus rates typically adjusted at least annually and often quarterly, but for Asian markets the approach tends to be less active. Here companies would typically start from a position of wanting to leave bonus scales unchanged and to changing them only if bonus supportability measures fall outside of acceptable ranges.

Figure 6 shows the average number of times that insurers have increased and decreased bonuses over the last 10 years in each market, based on the responses to our survey. The first observation to make is that other than Hong Kong and India, the general trend has been for more bonus decreases than increases over the past 10 years, which is likely the result of the difficult economic conditions we have experienced over this period. This could also be a factor in why we are seeing par new business sales struggling and the negative outlook for par.

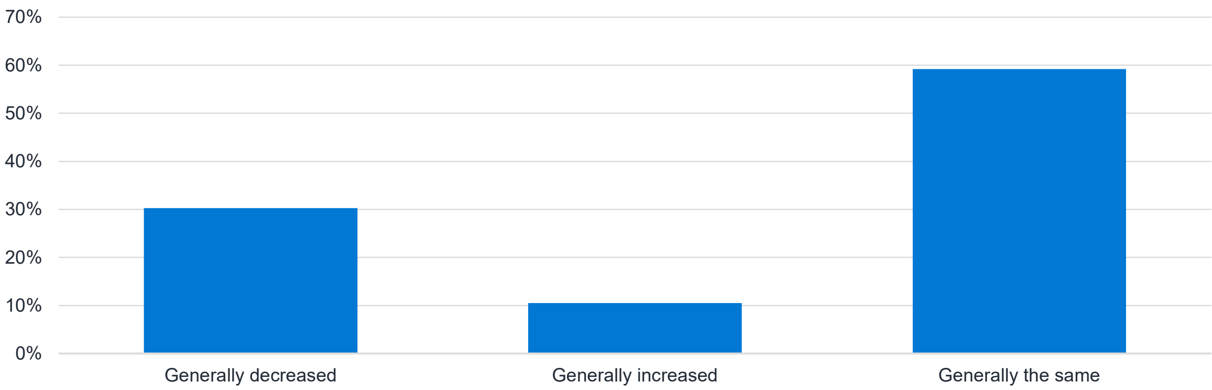
Another observation that we can make is around the frequency of bonus adjustments, either up or down. In Hong Kong and Thailand the combined average number of bonus adjustments (number of increases plus number of decreases) in the last 10 years has been around seven, but for Sri Lanka the average is only 0.5 and for Indonesia, Malaysia, and the Philippines the average is only around two, indicating a much more 'sticky' approach to bonuses in these markets. For Malaysia, however, the responses do not seem to have included the regular adjustment to terminal bonuses that are applied to business sold since 2005, as the Malaysian regulations require benefit payments on this business to be at least equal to asset share, which in turn means that insurers will review (and generally update) terminal bonus scales very regularly (at least annually) for this business.

FIGURE 6: MOVEMENT IN BONUS RATES OVER THE PAST 10 YEARS



The COVID-19 pandemic and its aftermath led to a high degree of volatility in the financial markets, which has continued as economies struggle to deal with the costs that the pandemic generated as well as other geo-political issues, such as the war in the Ukraine. Interest rates dropped to record lows in some markets during 2020, but have since been rising to their highest levels in over 10 years. Given this recent volatility in economic markets, we might expect par funds to have struggled to maintain the same level of bonuses they were declaring before the pandemic. However, when we asked what the general direction of bonus rate changes had been from 2020 to 2022, most respondents to our survey indicated that bonus rates had generally stayed the same over this period, although 30% did indicate that they had generally decreased.

FIGURE 7: MOVEMENT IN BONUS RATES DURING 2020 TO 2022



INVESTMENT STRATEGY OF THE PARTICIPATING FUND

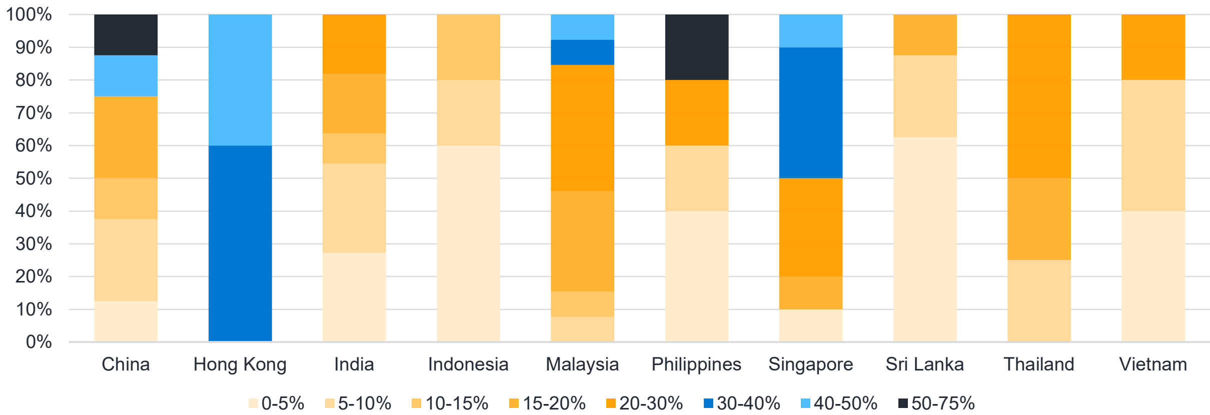
Investment strategy plays a key role in determining to what extent and how likely the non-guaranteed benefits illustrated at the point of sale can be met. Investing in higher risk assets, such as equities, can offer par funds higher potential investment returns to support higher non-guaranteed benefits in the future, but this also comes with the risk of the returns being more volatile, which creates less certainty in the level of non-guaranteed benefits that can be supported.

Figure 8 summarises the allocation rates to higher-risk assets of the par funds from our survey respondents. We can see that Hong Kong generally has the highest allocation to these types of assets, then Singapore, then Malaysia, although some of the respondents from China also indicated very high allocations to equities. One of the reasons for the higher allocation to these types of assets in Hong Kong and Singapore is the lower bond yields in these markets, which have led insurers to look at other assets to support higher returns,

Another driver of the higher allocation to higher risk assets in Hong Kong is the regulations around policy illustrations in that market. Hong Kong insurers are allowed to illustrate future expected policy benefits based on their own individual view of expected future returns taking their individual investment strategy into account. Higher allocation to higher-risk assets helps to support a higher investment return assumption, and therefore higher projected benefits in policy illustration. Competition for sales also then drives insurers to adopt the more aggressive investment strategies. In other markets, such as Singapore, Malaysia, and India, regulations limit the maximum investment return assumption that can be assumed in projecting benefits for sales illustrations, so there is not the incentive to invest more aggressively than is required to meet the capped assumption.

Regulations in some markets also affect the investment strategy; for example, companies in India cannot allocate more than 30% to equities. Accounting and solvency capital regulations can also have an indirect impact on investment strategy; for example, the book value accounting rules in Vietnam do not favour equities.

FIGURE 8: PROPORTION OF INVESTMENTS BACKING PAR POLICIES IN EQUITY, PROPERTY AND OTHER HIGHER-RISK INVESTMENTS



The use of derivatives and investment in alternative assets are two areas of development that we have seen in par markets across Asia in recent years. Figure 9 shows the proportion of respondents from each market that said they made use of derivatives and alternative investments in the par fund. We can see that all of the respondents from Hong Kong and 90% of the respondents from Singapore said that they make use of derivatives in their par funds. The proportions in other markets are lower, from 46% in Malaysia down to 0% for Indonesia. The use of derivatives is likely a reflection of several factors, such as the availability of such assets in local markets, understanding and comfort of using and managing derivatives, and also regulatory restrictions around their use.

Where companies are using derivatives, we see that currency hedging is the most common use, closely followed by interest rate hedging. Some companies are making use of derivatives for investment efficiency (e.g., synthetics) and a very few are using them for credit and equity risk hedging.

Alternative asset classes in par fund investment strategies are more common than derivatives. As with derivatives, the use of alternatives is common in Hong Kong and Singapore, but our survey results suggest that alternative investments are also quite common in par funds in Thailand, the Philippines, and China. Private equity/venture capital, private debt, and infrastructure debt are the top three forms of alternative assets in the portfolios of our respondents, as Figure 10 shows.

FIGURE 9: USE OF DERIVATIVES AND ALTERNATIVE ASSETS FOR PAR BUSINESS

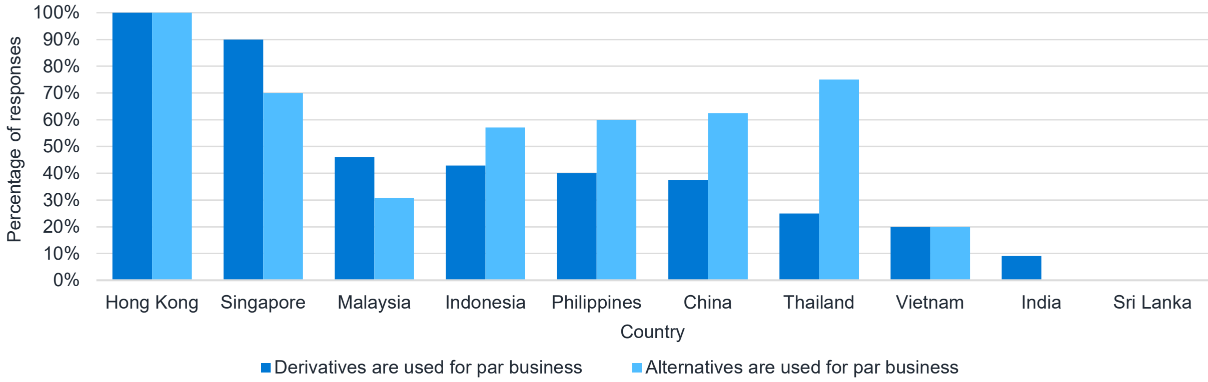
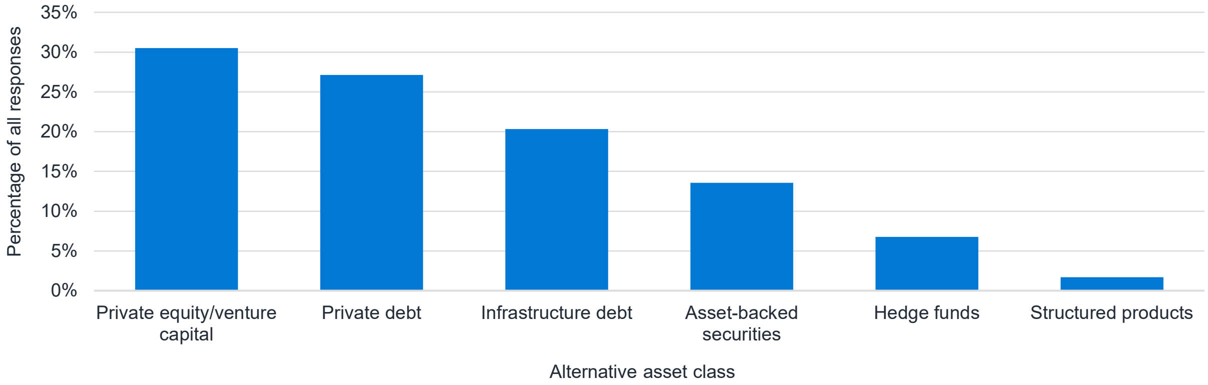


FIGURE 10: TYPES OF ALTERNATIVE ASSET CLASSES USED FOR PAR BUSINESS

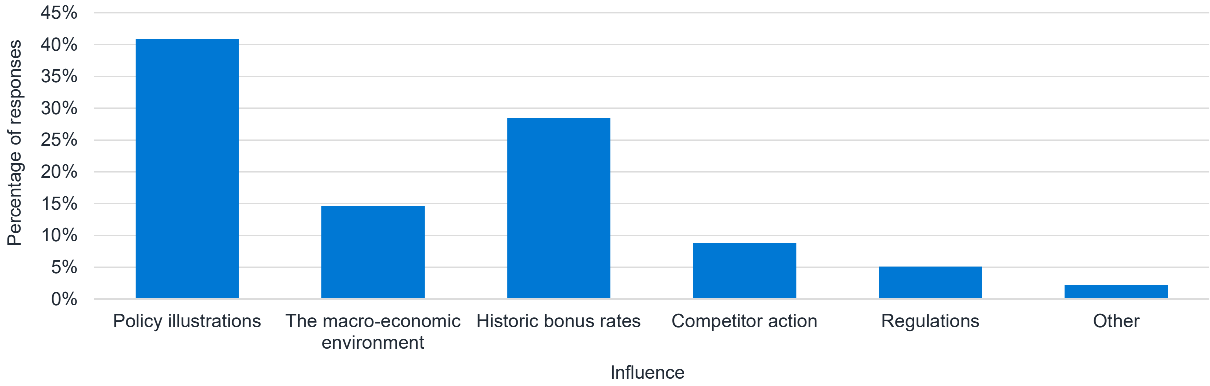


POLICYHOLDERS' REASONABLE EXPECTATIONS AND BONUS MANAGEMENT

The discretionary nature of the non-guaranteed benefits associated with par business introduces subjectivity for the insurers when managing the business. To try to reduce the subjectivity and meet the requirements of treating customers fairly, insurers will take 'policyholders' reasonable expectations' (PRE) into account when making decisions regarding the management of the par business. In many markets, regulations will specifically state that insurers need to consider PRE, and even in markets where regulations do not prescribe this, most insurers will still consider PRE as a best practice in managing par business. Having said that, it can be difficult to clearly define what PRE is, although many companies will attempt to.

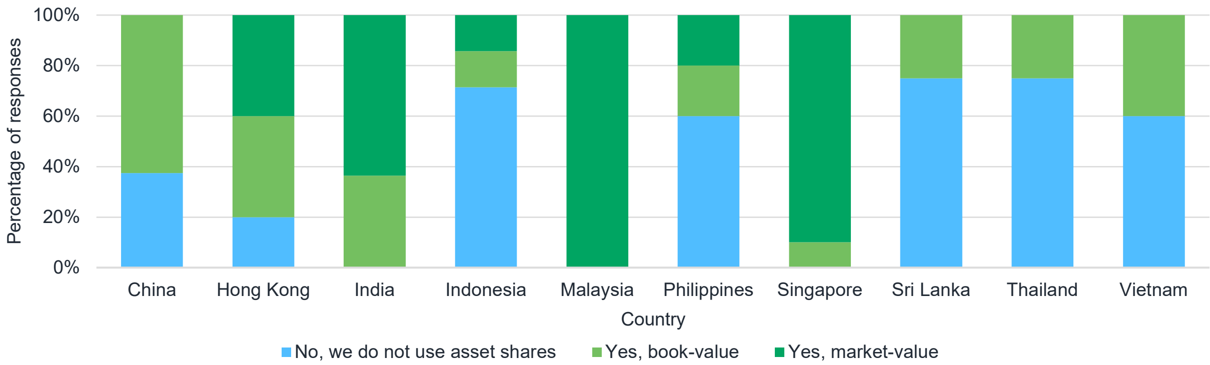
We have asked the participants in our survey to identify what they consider to be the most important influences on PRE for their par business, and the results are shown in Figure 11. The results are very similar to those from our previous survey in 2016, with policy illustrations and historic bonus rates being identified has having the most influence on PRE, followed by the macroeconomic environment.

FIGURE 11: 'WHAT ARE THE MOST IMPORTANT INFLUENCES ON PRE?'



Asset shares are a common tool used in managing non-guaranteed benefits for par business and are often seen as a more objective metric for measuring PRE. The use of asset shares is mandatory in Malaysia and recommended by the regulator and/or actuarial society in other markets including Singapore, India, and Hong Kong. Not all companies in all markets use asset shares, however, as can be seen in Figure 12. The majority of respondents from Indonesia, Philippines, Sri Lanka, Thailand, and Vietnam indicated that they do not use asset shares. Where asset shares are used, there is a split between using book and market values for the asset share calculations, with markets that use book returns for their financial reporting being more likely to use book returns for the asset share calculations.

FIGURE 12: THE USE OF ASSET SHARES AND BASIS

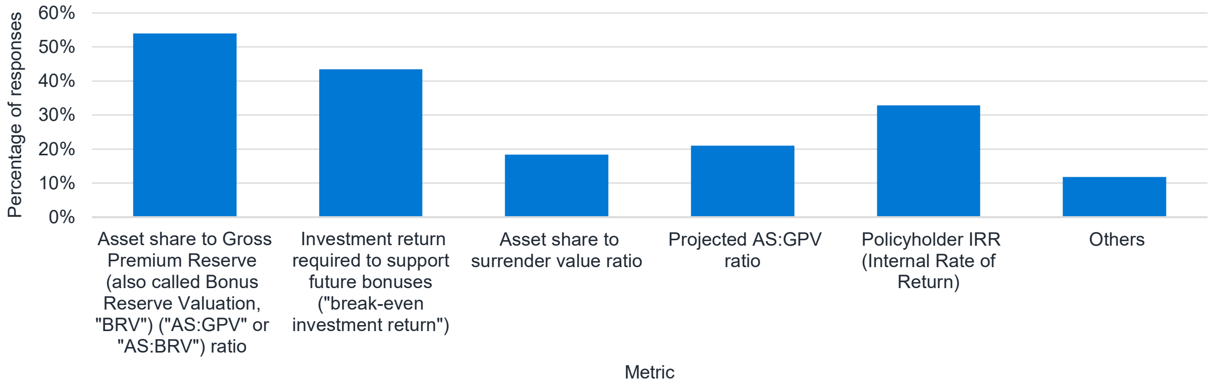


Asset shares provide a retrospective valuation of a policy, or group of policies, that take into account the actual experience of the business to date: for example, the actual claims, expense, surrender, and, importantly, investment experience. The asset share can then be compared to other metrics to help with the bonus decision-making process. Some of the common metrics we see used are:

- AS:GPV ratios, where the asset share (AS) is compared to a prospective gross premium valuation (GPV) of the future claims and expenses, less premiums, allowing for the non-guaranteed benefits based on current bonus/dividends scales, using the latest best estimate assumptions
- Break even investment return, which is the investment return assumption used in the GPV calculation, from above, that returns an AS:GPV ratio of 100%
- AS to surrender value ratios
- Projections of AS:GPV ratios
- Policyholder IRRs, which do not involve the use of asset shares, but look at the internal rate of return (IRR) on the policy from the customer's perspective, and may compare that to the IRR from the benefits illustrated at the point of sale

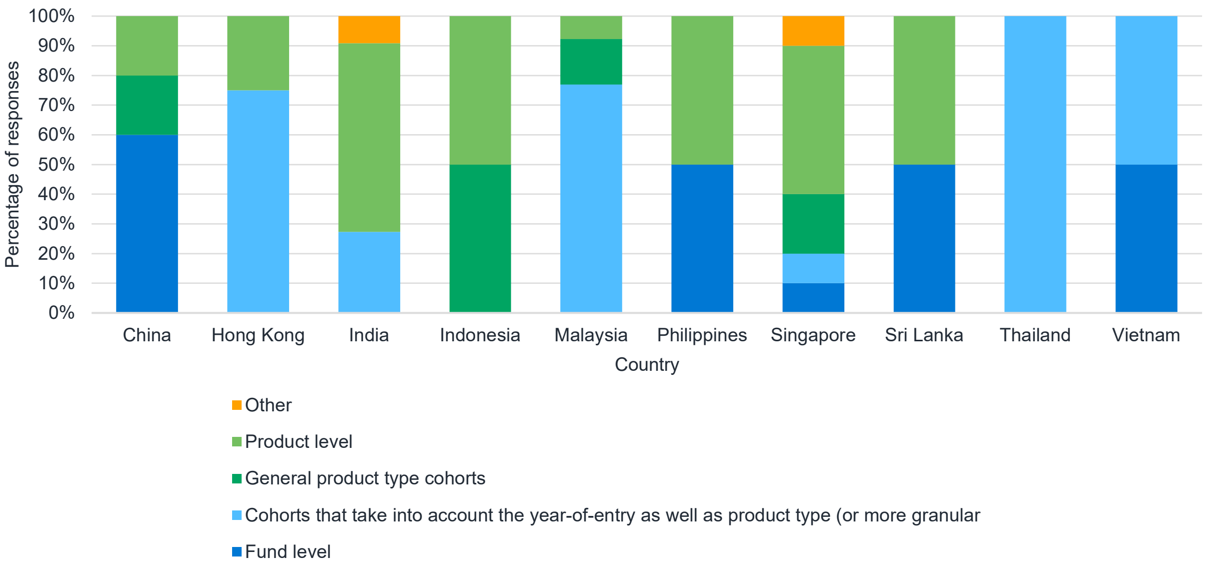
Figure 13 summarises the popularity of these different metrics in managing par fund bonus rates for the insurers that responded to our survey. There were several 'Other' metrics used by some respondents, including referring to competitors' actions and assessing bonus affordability under stress at a 1-in-10 confidence level, amongst others.

FIGURE 13: METRICS FOR BONUS REVIEW



Another key area of consideration when it comes to managing bonuses is the level of cross subsidy between different groups of policyholders. The degree of cross subsidy will depend on the level of granularity that companies split their par business into when looking at the metrics used for their bonus decisions. The more granular the split, the less cross subsidy there will be between policyholders. Figure 14 shows the level of granularity that insurers consider when analysing assets share results as part of making their bonus decisions. The level of granularity varies between markets, for example in Malaysia, Hong Kong, and Thailand it is common to review dividend at a cohort level that considers both product type and year of entry, whereas in Singapore and India it is more common to consider dividend revision at a product level. Splitting by year of entry will better reflect the actual investment experience over each policy’s lifetime, whereas broader groups increase the degree of investment smoothing that each policy implicitly receives. However, to the extent that products are regularly replaced with new versions, product-level assessment will implicitly include a degree of allowance for the time period of entry.

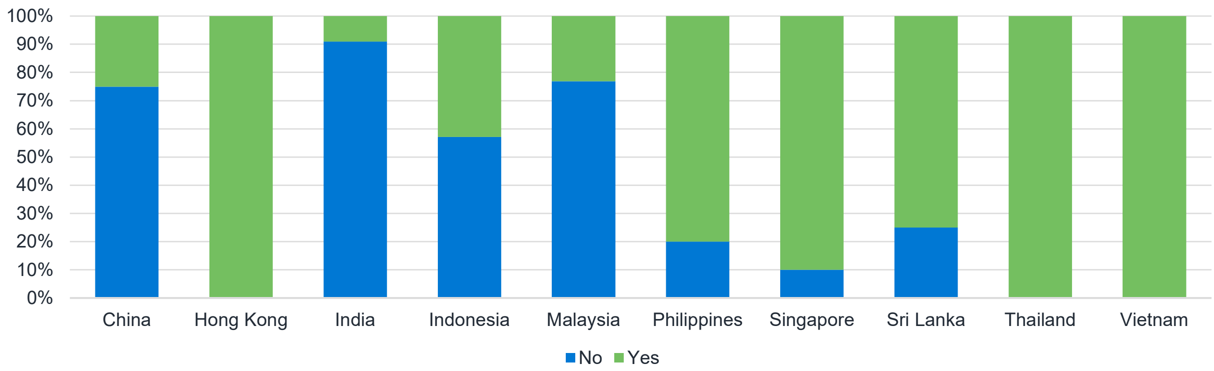
FIGURE 14: AGGREGATION OF ASSET SHARE



USE OF NON-PARTICIPATING RIDERS

In some Asian markets, such as Singapore and Hong Kong, we tend to see profit margins for the typical base par products that are sold being lower than for other product types, such as unit-linked and universal life products. To address this, insurers have looked to sell non-participating riders attached to base participating products as a way to boost the overall profitability. As can be seen in Figure 15, almost all surveyed countries exhibited a significant rider attachment, except for a few jurisdictions such as, India, Malaysia, China and Indonesia.

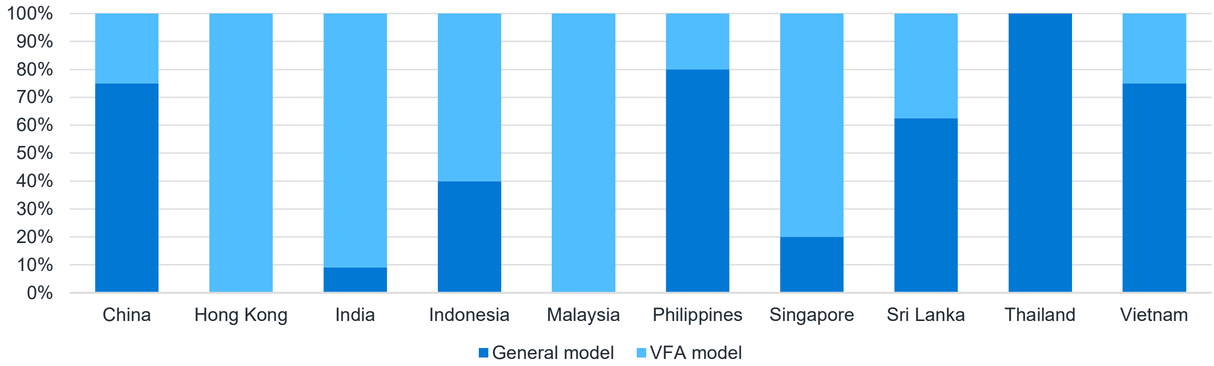
FIGURE 15: USE OF NON PAR RIDERS



TREATMENT OF PARTICIPATING BUSINESS UNDER IFRS 17

With the implementation of International Financial Reporting Standards (IFRS) 17, one common debate for par products is whether the general measure model or the variable fee approach (VFA) should be used to measure par products. The key benefit of using the VFA is that the economic variance can be absorbed by the contractual service margin (CSM) and amortised over time. However, it is not always beneficial to use the VFA model over the general measurement model, as there is a trade-off between the optimisation of the CSM and optimisation of the profit pattern. Based on the results of our survey, as shown in Figure 16, the VFA is more commonly adopted in the markets of Hong Kong, Malaysia, Singapore, India, and Indonesia.

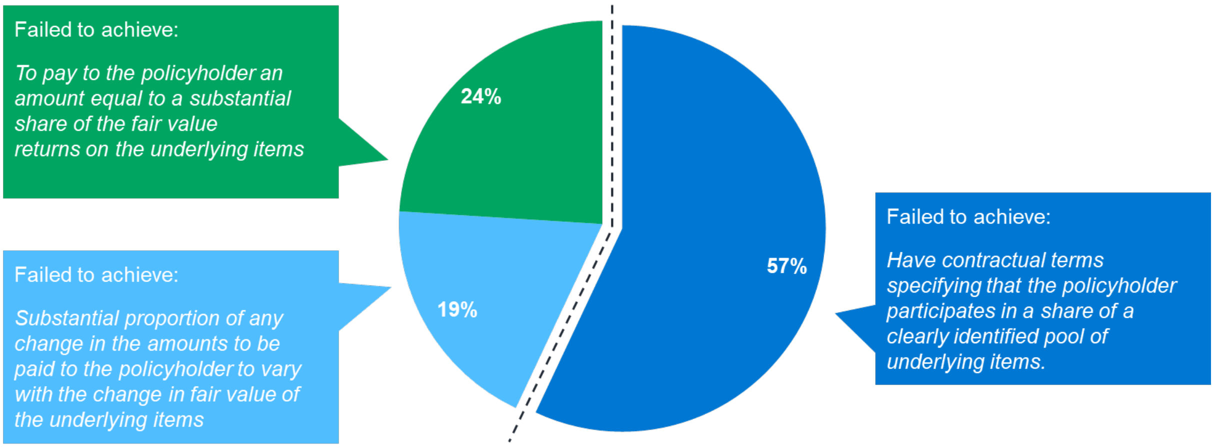
FIGURE 16: IFRS 17 – CHOICE OF MEASUREMENT MODELS



Where companies are not using the VFA model, this could be because they are unable to meet some of the required criteria to use it for their par business, but it could also just be that they are still in the process of defining their IFRS 17 methodology and have not yet decided which model to use.

For the respondents that are not using VFA model, we have also asked which criteria have limited their ability to use it. The results of this question are illustrated in Figure 17, which shows that the main condition that companies think they cannot achieve is the requirement to demonstrate that the policyholders' participation is in a clearly identified pool of underlying assets, which could be difficult when the par fund is not segregated.

FIGURE 17: REASONS FOR NOT FULFILLING THE VFA ELIGIBLITY REQUIREMENTS



Going forward, as more markets implement IFRS17 and players in markets where par business is less prominent start looking at offering par products, it would be interesting to keep monitoring the methodology adopted by companies related to their par business and validate if everyone agrees that VFA model is a better fit with par products over the General Measurement Model.

Country overview

This section provides an overview of the key market features and issues in par markets across the region. We pick out emerging trends and the defining characteristics of par business in each country. For more details on some markets, please refer to the individual country reports in the later sections of this report, which outline relevant statistics and provide more in-depth analysis.

CHINA

In China, par products are most often written in the form of endowments and whole life variants, with a 70:30 profit-sharing arrangement. Policyholder returns are provided through cash bonus, reversionary bonus, and terminal bonus. The annual cash bonus approach is the most common method for surplus distribution, although in recent years whole life products with increasing death benefit through the accrual of reversionary bonus have become very popular.

Par business was first introduced in China in 2000 following a significant fall in interest rates which made the price of traditional products expensive. Par products quickly dominated the market with their profit-sharing mechanism. Although falling from the peak in 2013, the market share of par business has remained sizable. In recent years, par business has undergone a few significant developments following changes in regulation and policies intended to provide stability to the overall insurance business.

One of the largest developments in terms of regulation space has been the move to a new RBC standard, China Risk-Oriented Solvency System (C-ROSS), which has a three-pillar structure very similar to the EU's Solvency II regime. The industry formally transitioned to C-ROSS at the beginning of 2016 and subsequently to C-ROSS Phase II since 1Q 2022. A benefit for par business under C-ROSS is its loss-absorbing mechanism. Under severe market shocks, insurers can take management actions to adjust non-guaranteed benefit cash flows of the par business to absorb some or all of the losses incurred, which has the effect of reducing the total capital requirement.

The regulator in China has also been actively managing the pricing interest rate cap for par business, which defines the maximum investment return assumption that insurers can use in pricing new products, with an objective to contain the interest spread risk for insurers. Starting from 2019, due to prolonged low interest rates, the regulator implemented a preventive measure by adjusting down the pricing interest rate cap for par products from 4.025% to 3.5%. A further -50 bps adjustment has been implemented effective from 31 July 2023.

In December 2022, new regulations were announced to further tighten the rules on par products' policy illustrations. Under the new rules, insurers are required to publish the dividend fulfilment ratio for their long-term par products within 15 days after the annual dividend announcement. The minimum requirement for benefit illustrations has reduced from three to two scenarios, with the lower scenario showing just the guaranteed benefits, and the higher scenario showing benefits assuming an investment return that cannot exceed 4.5%.

In the new era of low interest rates (as remains true in China as at the date of this report), and following the implementation of C-ROSS II in 2021, market consensus on the outlook for insurance business has been to continue focus on the development of long-term savings and protection business, with par business expected to maintain sustainable market share in the near future.

HONG KONG

Par business has historically represented a significant proportion of the life insurance business in Hong Kong, accounting for approximately 60% of new business and in-force premium income in recent years. Given the established product proposition and Hong Kong customers' appetite for the potential long-term savings return upside, it is expected that par business will continue to be one of the biggest sources of premium income for life insurers in Hong Kong in the near term. Besides, with the introduction of IFRS 17 and the Hong Kong Risk-based Capital (HKRBC) regime, par products with lower guaranteed returns and high terminal bonus provisions have become even more attractive from an economic balance sheet perspective, as compared to the older versions of par products that had higher levels of guaranteed return to policyholders or other higher guarantee savings-oriented products.

Following the introduction of the Guideline on Underwriting Long Term Insurance Business (other than Class C Business) (GL16) by the Insurance Authority (IA) in 2017, more requirements have been put in place to enhance fair treatment of customers and the maintenance of PRE. The key requirements of GL16 are:

- Insurers are required to have a corporate policy in place, which sets out the principles and practices on the management of their par business, including the detailed methodology used for the allocation of surplus or profits of the par pool
- Companies are required to publicly disclose policyholders' dividend 'fulfilment ratios' (i.e., the average ratio of actual bonuses paid against the illustrated amounts at the point of sale) for each product series with new business written over the past five calendar years
- The board and the Appointed Actuary (AA) are required to ensure that there is a fair chance of policyholders achieving the non-guaranteed returns, and the AA is required to make recommendation to the board through a formal report
- There are ongoing policyholder communication requirements for companies to re-illustrate future benefits each year, taking into account any dividend changes
- There are disclosure requirements on marketing materials, sales illustrations, and annual bonus statements

In 2020, the IA initiated the first industry consultation with an objective to enhance the current par management framework and develop a set of par fund management guidelines. Since then, there have been further rounds of consultation with different focus. In the latest discussion as at the date of this report, key proposed requirements include:

- Insurers will be required to manage par business in a segregated fund, with assets maintained in the segregated fund sufficient to cover the higher of the asset shares or the present value of expected future cash flows. Hong Kong Risk Based Capital (HKRBC) and Hong Kong Financial Reporting Standard (HKFRS, a localised version of IFRS17 with very high level of similarity) surplus may also need to be considered for surplus transfer
- Allocation of expenses and charges to the par fund should be fair and reasonable, and signed off by the AA with a written opinion
- A one-off external independent review is mandatory for all insurers to ensure compliance with the new par fund requirements

We note that the above requirements remain draft, are subject to industry consultation and are therefore subject to change. Further details around asset transfers, physical segregation, dividend/bonus mechanisms, enhanced governance and disclosure, as well as transition arrangements are expected to be discussed next.

Companies started publishing fulfilment ratios during 2016, and the scope of products required for fulfilment ratios disclosure will be expanded in 2024. Despite the recent volatile economic environment, companies seem, in general, to be able to smooth out the short-term volatilities in the market through the use of smoothing mechanisms, and have therefore been able to disclose fulfilment ratios that are not far from 100% for the products launched in the last five years where fulfilment ratios disclosures are required. For those companies that perform dividend reviews at a more granular level, it is not unusual for them to have adjusted dividends/bonuses in both directions, depending mainly on the historical market movement.

INDIA

Par business continues to be a significant part of the strategies of most companies in India, with around 45% of total gross premium income in financial year 2022 written in participating form. While this is mainly due to the large and market-dominating Life Insurance Corporation putting par at the very centre of its business, par continues to make up 18% of the total gross premium income for the private sector as well.

Par business is written with a 90:10 profit-sharing arrangement between policyholders and shareholders, with the policyholder return provided almost exclusively through a mix of reversionary/cash and terminal bonuses (very similar to par or 'with-profits' business in the UK). Products are most often written in the form of endowments, with money-back guarantees, and whole life variants are also popular. Par is typically favoured by agency sales forces rather than bank distributors. Equity participation varies across companies. The attractiveness of par business arises from the low capital strain and its ability to contribute to the company's overhead expenses.

New regulations for unit-linked products came into force in 2010 that introduced minimum surrender values and maximum reduction in yield restrictions, amongst other changes, making unit-linked products a less attractive sales proposition from the insurers perspective, and in response participating business witnessed strong growth in the early part of the last decade. However, over time the par share has been eroded in favour of non-participating savings products (where returns are fully guaranteed) and a return to unit-linked products. In recent years, some insurers have looked to move back to participating structures given the erosion of margins and competition in the non-participating segment.

The main governance aspects comprise:

- Professional requirements on the use of asset shares in the management of participating business
- A regulatory requirement for Insurers to have a with-profits committee, tasked with ratifying asset share calculations, surrender value scales, etc.; these committees have been in place for almost 10 years
- Regulations capping the amount of expenses that can be charged to the participating fund, which have been in place since 2015 and were modified in 2023

Additional, more prescriptive regulations have in the past been proposed, but it appears the current governance structures are relatively stable for now and our survey respondents tended to agree that regulatory threats were not a key concern at this time.

INDONESIA

Indonesia's only mutual life insurer, AJB Bumiputera 1912, has been selling par business for over 100 years. The sale of par products by this mutual company has, however, been less prevalent following its reported insolvency in circa 2016. Other than AJB Bumiputera, par products had not been a common product proposition for several years until around 2018, when several multinational companies started to launch or revamp their par products. In the last couple of years, there has been increased interest from insurers in exploring par products as part of their product offerings, as companies look to diversify their product portfolio away from investment-linked business.

As with some other markets in Asia, there are no publicly available statistics that specifically split out par versus non-par products. However, our experience is that par business has been sold by both multinational and domestic companies with varying degrees of popularity. In general, apart from AJB Bumiputera 1912, par policies typically form a much smaller part of a company's overall portfolio.

There are no specific par management regulations. In particular, there is currently no requirement to segregate par business into a separate fund. Details are yet to emerge on new regulations for fund segregation, although we understand that some companies do this of their own volition.

Similarly, there are no specific regulations around limits on profit sharing between shareholders and policyholders.

In practice, managing par business in multinational companies is often driven by the requirements of head or regional offices. For domestic companies, historical practice is likely to have shaped the current way the business is managed.

Par products are typically sold as medium- to long-term endowment and whole life products. The market has reversionary bonus and terminal bonus style products (additions to sum assured). Cash dividends were more popular with older products, but a few large companies are still offering this type of profit distribution.

JAPAN

Currently, there are more than 40 life insurers in Japan; among them there remain five mutual life insurers (Nippon Life, Meiji Yasuda Life, Sumitomo Life, Fukoku Life, and Asahi Life), and they are primarily selling par business. However, they also sell non-par business to compete with stock companies, though Japanese insurance business law and its related regulation forbid mutual companies taking more than 20% of premiums from non-par contracts.

Stock life insurers in Japan have no such limit and tend to sell non-par contracts, but provide par contracts for long-term savings, such as endowment, whole life, and annuities. Also, group term business typically returns mortality dividends (experience refunds) regardless of whether the provider is mutual or stock.

There are generally two types of par contracts for retail products:

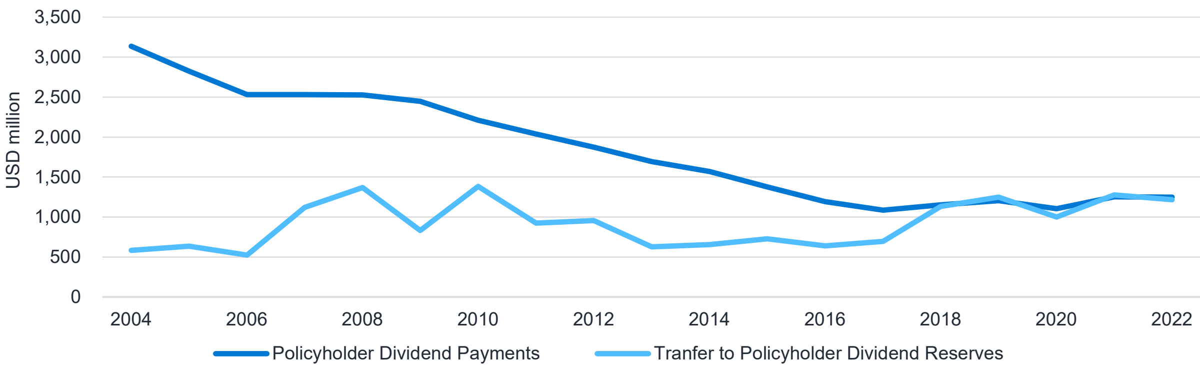
1. 'Traditional,' which pays dividends based on a three-factor formula reflecting gains on mortality/morbidity, investment, and expense components. These gains are recognised as the differences between the pricing assumptions and experience, and are distributed based on the total surplus in a fiscal year. Annual dividend distribution is common for these contracts, but terminal dividends may also be paid for those with longer terms (e.g., 10 years) if sufficient asset share remains at the time of the termination.
2. 'Semi-par,' which pays dividends based on gains from investments only. Usually, the gains are recognised as the difference between assumed pricing interest rates and actual earned interest rates over a five-year period and are distributed every five years. Some companies set this term as three years or one year.

The Insurance Business Act of Japan requires 'fair and equitable' distribution of dividends. A regulatory framework has been introduced to assure the effective implementation of this requirement. This oversight is conducted by appointed actuaries and regulatory authorities.

Currently, the minimum dividend payout under the law is 20% of the profit for mutuals, with no limits for stock companies. However, major mutual life insurers pay dividends at a substantially higher level than this floor.

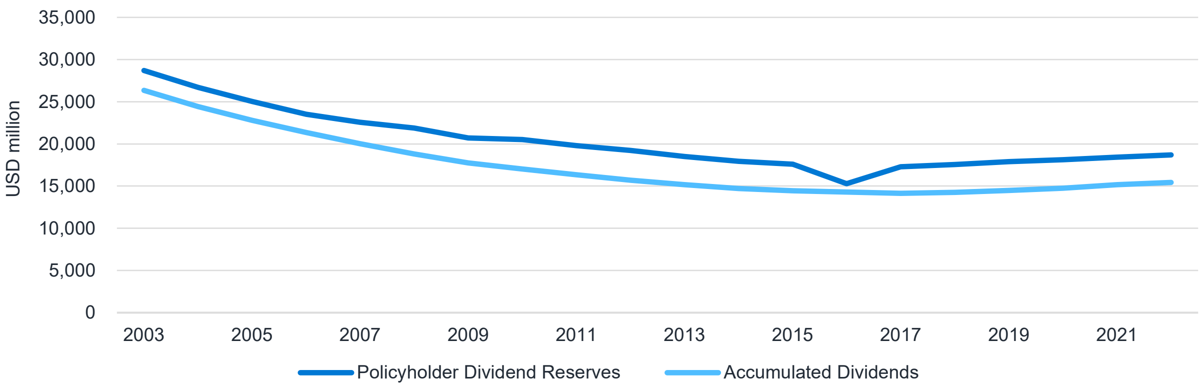
The graph in Figure 18 indicates the amounts of the Transfer to Policyholder Dividend Reserves and Policy Holder Dividend Payments (Individual Insurance and Annuity) of four large life insurers (Nippon Life, Daiichi Life [demutualised in 2010], Meiji Yasuda Life, and Sumitomo Life) from fiscal year (FY) 2004 to FY 2022

FIGURE 18: POLICYHOLDER RESERVES AND DIVIDEND PAYMENTS



The graph in Figure 19 indicates the balance of Policyholder Dividend Reserves and Accumulated Dividends (Individual Insurance and Annuity) of the same four large life insurers from FY 2003 to FY 2022 Accumulated dividends represent a liability, primarily for dividends left on deposit at companies.

FIGURE 19: POLICYHOLDER RESERVES AND ACCUMULATED DIVIDENDS



As bond yields fell during the period to 2015, we saw a corresponding reduction in dividends to policyholders. As yields have since levelled off, we observe that policyholder dividends have followed this trend and also levelled off. With the very recent rises in yields we may see some increase to dividend levels in the near future; however, the rise in yields in Japan has been much more muted than in other countries, so such increases in dividends may also be relatively limited.

MALAYSIA

Par business contributes to a significant proportion of the life insurance industry in Malaysia, and grew rapidly in the 1980s and 1990s given the relatively high illustrated bonus rates, which attracted consumers who prefer savings-type insurance policies.

As a result of the regulatory changes implemented in 2005, there are two main cohorts:

1. Pre-2005 block of businesses: The illustrations for these products are often simplistic, using a high single rate of investment return without a balanced illustration of the potential upside and downside risk in the investment returns. A large proportion of the payouts were comprised of terminal bonuses, while reversionary bonuses were kept low to minimise the level of guarantees. These products were often lapse-supported, enabling companies to boost bonuses and meet the high illustrated returns.
2. Post-2005 block of businesses: These are often called asset shares policies, whereby companies are subsequently required to pay asset shares on surrenders and maturity, in a regulatory effort to improve equity amongst policyholders.

Since the introduction of the Risk-Based Capital Framework in 2009, the industry has observed a decrease in the sales of par business as many companies focus their new business strategies towards the less capital-intensive unit-linked business. Subsequent to the introduction of a more comprehensive par regulations in 2016, Management of Participating Life Business (MPB), the industry observed a further reduction in the sales of par business, which was partly attributed to the implementation of lower sales illustrations investment scenarios of 2% and 5% for non-guaranteed benefits, as outlined in the MPB regulations.

As such, many companies are now facing new challenges in managing their par funds, particularly with reducing levels of new business and increasing levels of guarantees from the continued addition of reversionary bonuses as the in-force block matures. Maintaining the solvency of par funds could become a more prominent concern, especially if bonuses have not been reduced sufficiently to reflect the lower long-term expected returns compared with pricing bases.

Recently in July 2023, the regulators issued an updated version of the MPB regulations, which will come into effect on 1 July 2024. The salient additions of the new guidelines include:

- Requirements for insurers to carry out a one-off assessment to reaffirm the reliability of the estate and to ascertain that the estate is not directly attributable to identifiable groups of policyholders.
- Insurers are to perform an annual assessment to determine the amount of estate to be retained as working capital, and any excess estate beyond the working capital must be distributed. Any estate that has been distributed cannot be clawed back to increase the insurers' working capital in the future.
- If required by the regulator, insurers who are planning to perform an estate distribution exercise may need to commission an Independent Review Panel (IRP) comprising of actuarial and legal representatives with experience in par fund management, and at least one member representing the policyholders' interests. The IRP will need to assess if the proposed distribution of the estate is appropriate and reasonable, and whether it complies with the requirements of the MPB guidelines. The cost of the IRP will need to be met by the shareholders' fund and cannot be compensated from the estate.
- New requirements specific to the management of a small[1] and shrinking par fund. Where the insurer's par fund is small, has been on a declining trend and is expected to shrink to an unsustainable level in the foreseeable future, insurers are required to monitor risks and put in place remedial or mitigation actions to address these risks such that policyholders' interests are safeguarded.
- On communication to policyholders, insurers must notify policyholders of any bonus revisions, prior to the effective date of such bonus revision. This new requirement is expected to be challenging for many insurers.

PHILIPPINES

Par business in the Philippines life insurance market is typically sold as endowment and whole life products, with cash dividends being the main type of profit distribution mechanism used in the market. Based on the responses to our survey and our understanding of the market, par business is not a prominent part of new business sales for most companies. The few companies with significant par business sales tend to sell their products predominantly

[1] The 2023 MPB guidelines paragraph 16.2 deems a par fund is small if (a) the size of the par fund is less than RM2 billion, (b) the number of in-force policies is less than 200,000 and (c) the annual premiums are less than RM200 million.

via the bancassurance channel. Amongst those survey respondents selling par, the threats to par business that were most commonly cited are mis-selling of non-guaranteed benefits and low interest rates/poor investment returns, while common challenges include managing bonuses/dividends, PRE, and the macro-economic environment. Interestingly, one respondent cited some challenges in terms of education of the board on par-related aspects.

Regulatory requirements in relation to par business are relatively less developed compared with countries such as of Singapore and Malaysia. There is no requirement for fund segregation of par business, and most respondents to our survey confirmed that they write par business in the general policyholder fund with no notional segregation from the other lines of business. There are also no formal requirements around par fund governance, surplus distribution, and bonus rate declaration. The management of par business varies, in most cases, depending on the internal requirements from the head office or the board of directors. Only one respondent to our survey (out of five) calculates asset shares for the purpose of bonus determination, and which they then manage at a product level.

Disclosure requirements for par business currently take the form of a benefit illustration (applicable to all variable life contracts), in which companies are required to project benefit payouts based on an assumed interest rate that is subject to a prescribed maximum. According to our survey, most companies listed such illustrations as having the most influence on PRE and we understand that these companies pay out bonuses/dividends based on illustrated rates (by default).

SINGAPORE

Par business has been sold in Singapore for as long as there has been a life insurance market in the country. It continues to be an important product offering. However, there has been a decline in its significance; having made up 57% of the total individual life-insurance APE in 2015, this has fallen to 45% in 2022. The importance of the par proposition in Singapore can be seen by the fact that four relatively new insurers in Singapore have set up par funds in recent years: Etiqa in 2014, China Life in 2017, China Taiping in 2019, and FWD in 2023.

Great Eastern, Prudential, and Manulife dominated the sales of par business in 2022, and it is no coincidence that these three insurers have the bancassurance partnerships with the three largest retail banks in Singapore. Par business has historically been particularly popular through the bancassurance channel and we see this trend continuing. Excluding these three companies, however, we do observe a shift away from par business for some of the other large and mid-tier insurers. AIA, Income, Tokio Marine, and Singlife (previously Aviva) have all seen significant contraction in their sales of par business between 2015 and 2022 (noting that in the case of Singlife this was driven by the loss of Aviva's bancassurance partnership with DBS to Manulife at the start of 2016).

Various types of par products are offered in Singapore, covering savings, protection, and legacy planning needs. In 2015 the majority (76%) of par new business APE came from endowments, but this has shifted in the intervening years and in 2022 it was whole life products that dominated the par new business sales, making up 72% of par new business APE. Similarly, we have also seen an increase in the sale of single-premium par business, which has gone from 18% of the total par new business APE in 2015 to 42% in 2022. Total numbers of new business policies have declined steadily from a peak in 2019 to 2022 (a 38% drop over the three years), and yet the total new business APE in 2022 is only marginally lower (3%) than the figure for 2019. The driver for this is a large increase in the average case size for single-premium, which has increased by 98% from 2019 to 2022. This links to the shift in new business APE from endowments to whole life, which has been driven by the introduction and increased focus of single-premium whole life par products being sold to the high-net-worth (HNW) market in these recent years.

Regulations require companies to manage the par business in a separate insurance fund, and we see these funds typically invest a significant proportion of the assets (50% to 80%) in bonds, with equities and property making up approximately 10% to 40%. Most insurers also include some allocation to alternative asset classes, with private equity and private debt being the most common choice, but infrastructure debt, asset backed securities, and hedge funds are also used by some insurers. Derivatives are commonly used in Singapore par funds, with managing currency risk being by far the most common use, but they are also used to help manage interest rate risk, and to a lesser extent equity and credit risks.

The most significant change to Singapore par funds since our last report in 2017 has probably been the introduction of RBC2, the updated solvency and capital regime. RBC2 came into force from 31 March 2020, just as the COVID-19 pandemic was taking over the globe and interest rates started dropping to record low levels in Singapore. The RBC2 framework was expected to result in lower solvency ratios for par funds, but the actual impact was particularly onerous because of the low interest rates which have a much greater effect under RBC2 than the previous RBC framework. Despite the Monetary Authority of Singapore (MAS) introducing transitional measures to temporarily help insurers' solvency ratios, we saw several insurers having to make significant injections of shareholder funds (or capital) into the par fund surplus account (a shareholder-owned fund that is specifically allocated to support the par fund).

The moderate interest rate rises that started in 2021 and then increased more sharply in 2022 have resulted in improved capital positions for the par funds, which in turn has allowed for the release of some of those injections to the surplus accounts that occurred in 2020. We have also seen insurers adopting measures to improve the capital efficiency of the par fund. One of the most common measures has been to allocate blocks of par business to matching adjustment portfolios, which can help to significantly reduce the RBC2 credit spread risk requirements. Some insurers have also looked to reinsurance solutions to help improve the capital requirements of the par fund.

Regulations in Singapore around sales literature require insurance sales to follow the policy illustration guidelines set by the Life Insurance Association. For par business this requires policy benefits to be illustrated on two different investment return bases to demonstrate the effect that the uncertain future investment returns can have on the non-guaranteed benefits policyholders might expect from their par policies. In 2021, in response to the very low interest rates that had been persisting for some time, and had dropped to record lows in 2020, the LIA reduced the maximum investment return assumptions for the upper and lower bases for par business from 4.75% and 3.25% to 4.25% and 3.00%, respectively. When interest rates then began to rise significantly in 2022, these lower investment return assumptions have made illustrated benefits on par products look less attractive relative to other alternative investment options available to potential customers. The very high rise in short-term interest rates that arose as a result of the yield curve becoming inverted has had a material effect as fixed deposit rates have increased so significantly.

The recent rise in interest rates has also resulted in investment return underperformance relative to the illustrated rates in 2021, which became more significant in 2022 with large negative returns for the par funds. As interest rates rise, the price of fixed interest assets falls, leading to negative returns, with the effect increasing as bond duration increases. Where insurers looked to reduce their interest rate risk charges under RBC2 they may have been tempted to increase the duration of their fixed interest investments, and if this was done in 2020/2021, when interest rates were at their lowest, the subsequent rise in interest rates could have been costly to the par fund investment returns.

Despite this poor investment return performance, few insurers have actually implemented cuts to their bonus rates. This is because the higher interest rate environment has meant that the outlook for insurers' investment returns have increased. Of the 10 insurers that responded to our survey, only two have said that bonuses have generally decreased in the period from 2020 onwards, with the other eight saying that bonuses have generally stayed the same over this period.

SRI LANKA

Participating business has been offered by Sri Lankan insurers since the inception of the insurance industry in the 1930s. Though this product segment was quite popular in the past, interest has been gradually declining with the contribution to new business from par representing just over 19% in year 2021. Many reasons have contributed to this downward trend, but a key reason has been insurers looking for increased shareholder profitability, since the 90:10 profit-sharing rule in Sri Lanka limits the profitability of par products in relation to non-par products where companies can earn quite large margins on the investment spread. Many insurers have transformed their business models from majority participating business books into a model focused more on non-par products, consisting of both traditional non-par products and universal life. This transformation took place during 2010 to 2012 and the newly introduced universal life products gained immense popularity among both customers and advisors, thus dampening the interest in par products. The universal life products offered contain characteristics quite similar to bank savings products, but with the inclusion of insurance benefits, increased flexibility of premiums, and perceived high returns at maturity. All these factors contributed towards this elevated demand for universal life and the decline of par products.

Current market trends are for par plans to continue to contribute only a minority revenue to insurers. However, the results of our 2023 survey suggest that there could be a shift in market sentiment towards selling more par products in the future.

The base par products are typically sold with a host of non-participating riders including accident, critical illness, hospitalisation, and surgery benefits. There is increased interest among the insurers to enhance the rider attachment of all base products sold, in particular par products.

Regulatory change in 2016 to a risk-based capital regime required maintaining segregated funds between key product segments such as par, non-par, and universal life, making the actual experience of each product line more prominent. This change resulted in many insurers observing negative or relatively low contributions to their overall profit from the par portfolios. This led many players to decide to close to new par business altogether.

Furthermore, discussions have taken place within the industry to apply uniform disclosure requirements on policy information issued to prospective customers to enable better comparison of benefits with alternative products. However, these new requirements are yet to be finalised and adopted by the industry.

Sri Lanka is expected to adopt IFRS 17 from January 2025 and preparations are underway by the majority of insurers in the market. We have noted that local players with significant par portfolios have started on their IFRS 17 preparation journey relatively earlier than others.

Risk exposure for par business in Sri Lanka is typically not ceded out to reinsurers and is instead retained by the insurers themselves. The reinsurance retention ratio for par business in Sri Lanka, which is defined as the aggregate net sum-at-risk retained by the insurer as a proportion of the total gross sum-at-risk, has always remained at very high levels. In 2021, the aggregate industry-wide retention ratio for par business stood at 99.38%, indicating that the risk exposure of participating business is almost entirely retained by the insurer, indicating the high claims-absorption ability of the industry.

TAIWAN

Saving products continue to be a significant part of the Taiwan life insurance market, with players competing on selling mainly interest rate sensitive whole life products and unit-linked products, with an objective to provide more saving vehicles for the customers. Sales of par business in Taiwan have been minimal since the regulator banned the sales of 'participating products with compulsory profit sharing' back in 2004.

Participating products with compulsory profit sharing require companies to declare dividends based on a prescribed formula intended to link dividend levels to interest spread (determined as the excess return of current two-year time deposit rates over the pricing interest rate) and mortality spread (based on actual mortality experience versus that expected in pricing). As these products were priced when interest rates were much higher in early 2000s, when interest rates first started to drop, insurers selling these products suffered huge losses as a result of the negative interest spread and continued responsibility to pay dividend based on the positive mortality spread. As the situation worsened, the regulator stepped in and changed the rules so companies only had to pay dividends when the total spread from both components is positive, after allowing for offsetting. As a result of this change, it was not uncommon for policyholders to receive materially reduced dividends from such products at that time, which led to scrutiny from the general public and complaints from the policyholders.

While participating products with compulsory profit sharing can no longer be sold, normal par products with company defined profit-sharing mechanisms are still permitted. Over the last decade, PCA Life has been the only company selling par business in Taiwan, but in 2023 two more companies have launched new par products. Par business has become a focus again as insurance companies struggle to find new product ideas in light of the prevailing economic environment and the optimisation required following the imminent adaptation of local International Capital Standards (ICS) and IFRS 17 in 2026. We understand that some other companies are also considering developing their own versions of par products.

In terms of current regulations for par business, assets backing par business are required to be segregated, while the sharing ratio between policyholders and shareholders cannot be less than 70:30. There are also requirements around par product approval, disclosure, and sales process. In addition to these, there is an additional requirement that requires companies that are not able to pay out the illustrated level of dividends for two consecutive years to explain formally to the regulator on the reasons behind this and to set out a remedial plan. With par business starting to gain momentum again, we understand that the regulator has identified at least eight areas where existing supervision will be strengthened, mainly around management of segregated asset portfolios, reassessing the maximum sharing ratio, disclosure to policyholders, and further limitations on the sales process. Revised rules are expected to be released in early 2024.

THAILAND

Saving products have dominated the life insurance market in recent years, with non-par endowments and whole of life products being the top sellers. Par business has historically represented a relatively small proportion of the life insurance business in Thailand. The key challenge and threat that Thai insurers are facing is managing policyholder expectations and dealing with mis-selling risks associated with par business.

Not all Thai life insurers offer par products. Some of the larger players in the market are able to offer competitive high guaranteed customer returns for their saving products. Customers in the Thai market who are willing to accept extra investment risk in exchange for higher potential non-guarantee returns typically prefer investment-linked products over par. This is due to the extra flexibility offered by investment-linked products, in particular around premium payments and the ability to invest in various funds according to the individual risk appetite of customers.

Companies in Thailand selling par products typically bundle them with non-par riders to improve the profitability of the business.

VIETNAM

Traditional endowments were very popular in Vietnam, although universal life products have become increasingly prevalent in recent years. Most traditional endowment plans are par in nature, with many packaged as education savings products, which are popular in the market.

Protection rider attachment rates to endowments have been relatively high historically, driven by the dominance of agency channel distribution, the 'rider-friendly' regular-premium nature of most base endowment products, and the prominence of multinational insurers that have achieved successful rider strategies in Asia, including Prudential plc., AIA, and Manulife.

Par business was historically popular in the Vietnam market, with sales of both endowments and whole of life products. For most companies, cash dividend style products have been the more common style of par product in Vietnam, but some players, notably Prudential with its UK background, sell products with a reversionary and terminal bonus structure. Recent experience has, however, not been good for par business. The steady decline in government bond yields over the last 10 years, coupled with the regulatory framework for par business has created challenges for the management of par business in Vietnam, which in turn has resulted in a decline in sales in recent years. Based on the responses to our survey, par is now making up a small proportion of new business sales (less than 5% for four out of the five respondents) and the outlook was generally for a further decrease of par new business sales over the next five years.

Par business in Vietnam must be maintained in a separate par fund (gated fund), with profit-sharing rules limiting the shareholder share of surplus to a maximum of 30% (i.e., a 70:30 split). As well as a general requirement that policyholders must receive at least 70% of surplus arising, there is also a requirement that policyholders receive at least 70% of the separate investment return, expense, and mortality and morbidity experience. The regulations also require that at least 90% of the surplus arising each year must be distributed in that year, with the remaining 10% available to allocate to an undistributed profit reserve that can be distributed in later years. The restriction on the amount of surplus that can be held back to support bonus distributions in the future makes it harder to manage products with significant terminal bonus components, as these rely on holding back surplus to distribute at the time of claims. The industry is, however, expecting a new Decree to be issued by the end of 2023 that will cover regulations for surplus distribution, which may change or clarify some of these rules.

The solvency and capital regime in Vietnam uses a book value approach for assets, but liabilities are calculated using a valuation interest rate set based on actual market interest rates over the previous six months. As a result, when interest rates are declining, the value of liabilities is increasing without the offsetting increase in asset values, as the assets are valued at book value. As a response to this challenge, at various times companies have needed to realise some of the gains on fixed-interest assets to maintain solvency, but this can then create challenges with managing the surplus distribution, as realising the gains leads to large investment surpluses that then need to be distributed.

Allocation to equities is typically low for par funds in Vietnam (less than 10%), with the majority of investments in local government and corporate bonds, as well as time deposits.

Country report: China

All statistics are based on aggregate figures across all par funds in the market, unless otherwise stated. Statistics have been sourced from the China Banking and Insurance Regulatory Commission (CBIRC), Yearbook of China Insurance, our survey, and our industry knowledge.

GENERAL BACKGROUND

PAR BUSINESS FIRST SOLD	2000.
CLOSURE TO NEW BUSINESS	Most par operators are continuing to sell par products.
SHARING RATIO	Policyholder profit-sharing no lower than 70%.
TYPICAL BONUS STYLE	The majority is annual cash dividend, but some reversionary and terminal bonus products also exist.
TYPES OF PAR PRODUCTS	Regular- and single-premium endowment products dominate, with increasing popularity for whole life and annuity variants.

HISTORICAL DEVELOPMENT

Par business was first introduced in China in 2000, following a significant fall in interest rates during the second half of the 1990s. One-year bank deposit rates fell quickly from the historic high of 11% in 1996 to 2.25% in 2000. At that time Chinese insurers faced huge negative interest spreads. On 10 June 1999 the China Insurance Regulatory Commission (CIRC) issued an urgent notice to cap pricing interest rates at 2.5%, which helped reduce the negative interest spreads on new business, but also made traditional products much more expensive and therefore harder to sell. Par products quickly dominated traditional and bank savings products, driven by their profit-sharing mechanisms.

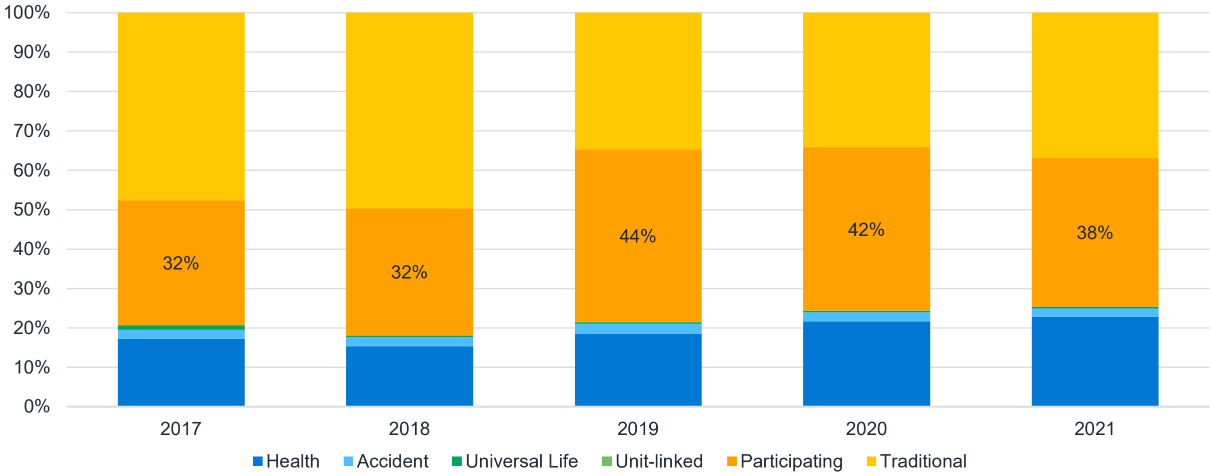
The peak of par business was from 2009 to 2013, when roughly 80% of the new products sold in the market were par products. However, 2013 was a turning point. In August 2013, the restrictions on pricing interest rates were lifted for non-par products, and given the recovery in interest rates since 2000, this has resulted in significant reductions in new business premiums. A significant increase in the sales of non-par products at the expense of par products then followed. In September 2015, the pricing interest rate ceiling on par business was also lifted from 2.5% to 4.025%.

In January 2016, the Chinese market moved to a new RBC standard, China Risk-Oriented Solvency System (C-ROSS), with a three-pillar structure very similar to EU's Solvency II regime. Companies with a higher portion of long-term protection products, less risky assets, and better risk management practices benefit from the lower capital requirements, while other insurers are under greater pressure compared with Solvency I. A benefit for par business under C-ROSS is its loss-absorbing mechanism. When unexpected losses arise, insurers can take management actions to adjust non-guaranteed benefit cash flows in par business to absorb some or all of the losses incurred, which has the effect of reducing the total capital requirement.

In 2019, under the pressure of a new downward trend in interest rates and the economic situation at this time, the regulator in China implemented preventive measures by adjusting down the pricing interest rate cap for par products from 4.025% to 3.5% to contain the interest spread risk for insurers. The change looked to balance the interests of policyholders and insurers while ensuring the sustainable development of par products. By adjusting the pricing interest rate cap, the regulator intended to align the returns provided to policyholders with market conditions and prevent insurers from over-promising returns that may not be sustainable in the long term. The interest rate cap has been further adjusted down from 3.5% to 3.0% effective from 31 July 2023.

NEW BUSINESS AND IN-FORCE BUSINESS VOLUMES

FIGURE 20: PROPORTION OF NEW BUSINESS AND IN-FORCE PAR BUSINESS – SHARE OF PREMIUM INCOME



Based on the limited public data on par business, the share of par premium (including both new business and in-force business) has been trending up over 2017 to 2021. The share of par premium in terms of total gross written premiums (GWP) increased from 32% in 2017 to 38% in 2021, despite a small decline between 2019 to 2021. However, the current level is significantly lower compared to the peak level of ~80% during 2009 to 2013.

Our survey results implied that the average share of new par business for the companies who responded is in the range of 40% to 50%, and the average share of in-force reserves contributed by par business was in a similar range as new business. These results are largely in line with what can be observed from the industry in-force business data.

Throughout the pandemic, China has maintained low interest rates, in contrast to the United States and other major countries that have aggressively raised rates to curb inflation. Hence, the sale of par business was not affected by the rise in interest rate as was evidenced in other markets. This is confirmed by our survey results in which the majority of respondents indicated that par business has not been impacted by the recent trends in interest rates.

However, the sale of traditional products has experienced a fall since 2019. The reduced share of traditional products has been replaced by a corresponding increase in the share of par products and health products. This could be driven by people's increasing awareness of health post the pandemic. As health products are commonly packaged in the form of par products, e.g., whole life critical illness, the rising demand for health products could have helped the growth in par business.

Product types: Regular premiums endowment and whole life products continue to dominate.

New business split by company: About 60% of the new par business measured by annual premiums are from the top eight large insurers (out of 72 life insurers that are selling par products) based on public data as of 2021, namely China Life, Ping An, Taiping Life, PICC, Xinhua Life, Qian Hai Life, Taikang Life, and Evergrande Life. This indicates that sales of par business have been less concentrated among the top few companies than has historically been the case.

REGULATION/GOVERNANCE

Fund segregation: Par policies must be maintained in a separate fund.

Shareholder transfers: Shareholders entitlement to profits distributed from a par fund are limited to a maximum of 30% (i.e., a 70:30 split).

Brief description of solvency regime: The industry formally transitioned to C-ROSS Phase I at the beginning of 2016. On 30 December 2021, the CBIRC unveiled the new rules of C-ROSS Phase II. The CBIRC has allowed a transition period for some insurers that were more impacted by the new rules and expect them to comply with some of the rules in stages, with the intention of being fully compliant with the new regime by 2025 at the latest.

The main goal of the new solvency regime is to adopt risk-oriented capital requirements, adapted to the reality of China's insurance market, while remaining compatible with international practice.

Policyholder reserves are calculated as the sum of a best estimate reserve (BER) with a risk margin (RM). BER includes the present value of cash flows (PV) and the time value of options and guarantees (TVOG). Insurers can use their own experience or industry experience to estimate cash flows under Generally Accepted Accounting Principles (GAAP) and the relevant regulatory requirements.

The discounting of the future cash flows is based on a 750-day moving average of the government bond yield curve with an ultimate rate adjustment.

The TVOG is calculated using the present value of future reserves multiplied by a TVOG factor, where the TVOG factor is prescribed by regulator based on the pricing interest rate (guaranteed interest rate) for par business.

The minimum capital requirement for the quantitative risks in Pillar I, including insurance risk, market risk, and credit risk, is calibrated using a value at risk (VaR) approach.

A loss-absorbing adjustment is allowed for par and universal life business. When unexpected losses arise, insurers can take management actions to adjust non-guaranteed benefit cash flows for par and universal life business to absorb some or all of the losses incurred, which has the effect of reducing the total capital requirement.

With-profits committees (or similar): There is no regulatory requirement for specific committees for par funds. Most companies, if not all, have their internal corporate governance procedures, which may require the board of directors to approve the calculation of the asset share, with no formal requirement for a larger advocacy or oversight role.

Illustration requirements: On 30 December 2022, a set of new rules relating to the illustration requirements of long-term life insurance products were announced, to be effective from 30 June 2023.

Under the new rules, insurers are required to publish the dividend fulfilment ratio for their long-term par products within 15 days after the annual dividend announcement.

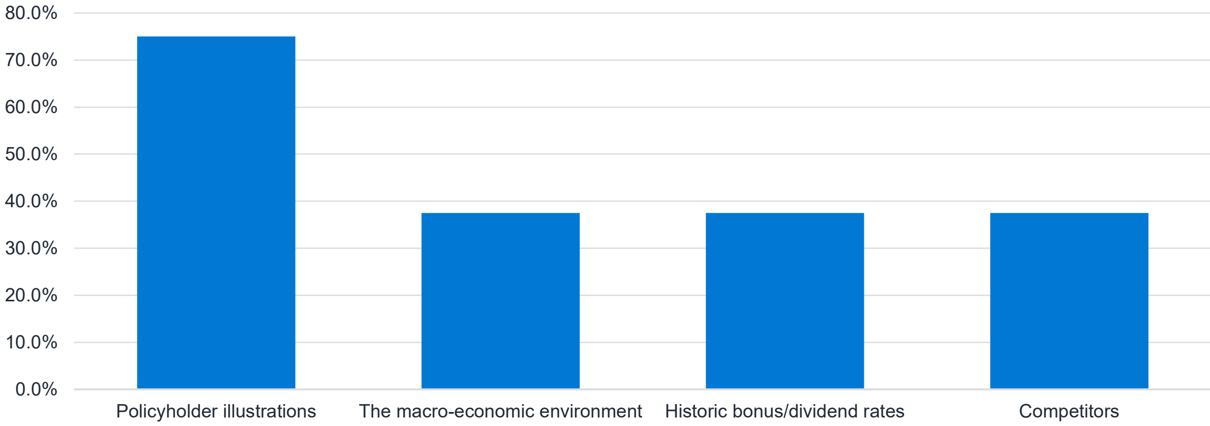
The participating nature of the product and its surplus distribution rationale should be highlighted in bold font at least one size larger than the main text in a prominent position of the product manual. Policyholders should be aware that the future policy dividends are non-guaranteed benefits, and their distribution is uncertain.

Sales illustrations must show benefits under two scenarios, one that shows guaranteed benefits only and a second that allows for future dividends. The investment return assumption for the projection of non-guaranteed benefits cannot exceed 4.5%. The insurer should not disclose the assumed investment return used for illustrations.

The policy illustration should also highlight the fact that the projected benefit illustrations are based on the company's actuarial and other assumptions, and do not represent the company's historical operating performance, nor does it represent expectations for the company's future operating performance.

In our survey results, 75% of respondents indicated policyholder illustrations as one of the most important factors that influence Policyholder Reasonable Expectation (PRE). This was followed by the macro-economic environment (37.5%), historical bonus/dividend rates (37.5%), and competitors' bonus/dividend rates (37.5%).

FIGURE 21: INFLUENCES ON PRE



Other required disclosures: At the point of sale, insurers must provide a product summary including information on benefits provided, key exclusions, policyholder's interests, and investment strategy. Bonus policies and sources of dividends (mortality profit, expense profit, and interest rate spread profit) should be briefly explained.

Post-sale, the annual bonus statement should include a review of past paid premiums and past received bonuses as well as detail of bonuses approved in the year.

Use of asset shares to guide payouts: There are no regulatory requirements dictating a relationship between asset shares and benefit amounts. Based on our survey results, about one-third of the respondents use illustrated bonuses to guide payouts.

The following charts indicate our survey results regarding the company's actual practices in relation to asset share calculation and bonus/dividend payout in fund governance.

FIGURE 22: SOURCES OF SURPLUS IN ASSET SHARE THAT ARE ALLOCATED TO POLICYHOLDERS

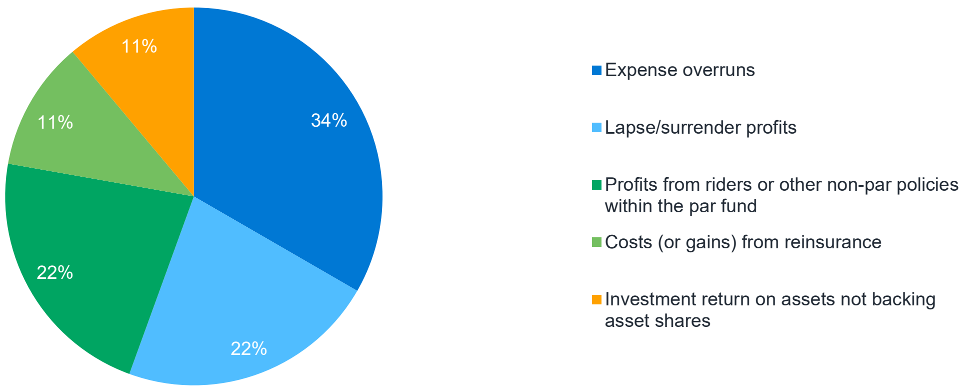
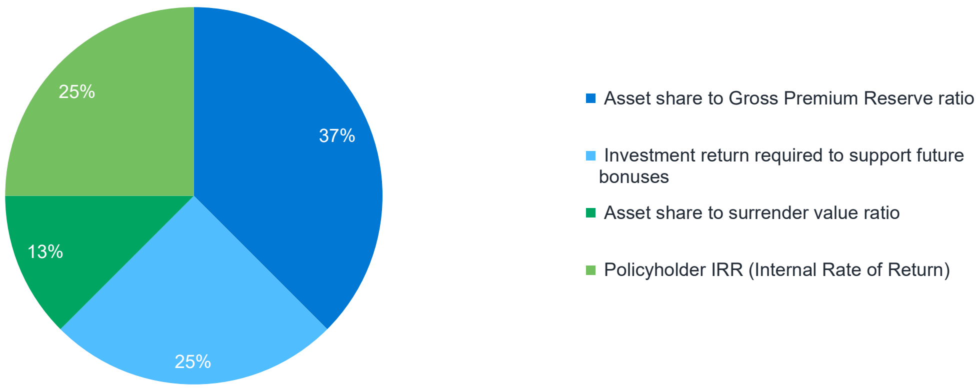


FIGURE 23: METRIC USED TO REVIEW BONUS RATES



FUND STRENGTH AND CAPITAL

Trend in solvency levels: With the implementation of C-ROSS II, a more stringent regulatory requirement, and the current low interest rate environment, solvency ratios of life insurers have been negatively impacted industry wide.

INVESTMENTS

Investment mix: Previously, companies heavily relied on investment in bonds and equities. Since June 2010, the new regulation has had fewer restrictions on asset allocations, and has allowed for many alternative investments. Insurers are investing more in real estate, corporate bonds, debt investment plans, and some other higher-yielding assets. However, with the implementation of C-ROSS II, which applies higher charges for risky assets, insurers have to consider capital requirements when making investment decisions, possibly optimising their asset portfolios to reach target investment returns in a capital-efficient way. The allowance for diversification effects on capital requirements within C-ROSS II will also be an important consideration. Based on our survey results, the average proportion of investments backing par policies invested in high-risk investments (equity, property, or others) is about 15-20%.

Our survey results also showed that a majority of respondents do not use derivatives as part of their assets backing the par business.

Use of alternative assets has become increasingly common, with more than half of the respondents indicating that they include alternative assets in their strategic asset allocation. The most common type of alternative assets is infrastructure debt, followed by private equity/venture capital and private debt.

Aggregate investment returns: Investment returns have been very volatile, particularly affected by the pandemic in the past few years. Based on our survey, respondents indicated greater numbers of downward adjustments than upward adjustments to bonus rate over the last 10 years. In the wake of the pandemic, the majority of the respondents expect bonus rates to be further reduced in the coming years.

Hypothecation of assets: Most companies have been using a single investment strategy for the whole fund. However, with the introduction of the new par guidelines in September 2015, companies are also giving consideration to hypothecating assets to back different groups of liabilities.

BONUSES

General approach: Typically, bonus scales are set as part of the product design, with the aim of sticking to them as much as possible. Bonus supportability is regularly reviewed (at least annually) and if necessary, bonus rates are cut, but terminal bonuses are not as actively managed as they might be in the UK, for example.

Bonus split between reversionary, terminal, and cash dividends: A significant proportion, if not most, of the bonuses are in the form of cash dividends, as par business is typically seen and sold as more of an investment product than insurance. Customers usually compare cash dividends of par products with the interest rates of time deposits.

Trends in bonus amounts: Effective from 30 June 2023, insurers are required to publish the dividend fulfilment ratio for their long-term par products within 15 days after the annual dividend announcement. With no public information, the bonus rates of large companies will likely largely depend on a company's investment performance, while smaller insurers or new market participants are likely to pay stable bonus rates (usually 4% to 5%) regardless of actual performance.

MARKET OUTLOOK

While there are short-term volatility and challenges, most insurers remain positive about the future outlook of par business and consider par products irreplaceable to customers due to the inelastic demand for saving/health/retirement type of products. In particular, under the prolonged low interest rate environment, advantages of par products are even more obvious due to the extent of guarantees (although low), and the possibility of sharing upside between policyholders and shareholders. With the aging population in China, there is greater scope for the expansion of par business, especially with the increasing demand for retirement and health products. To insurers, par products provide stability to the overall business by alleviating pressure of the interest rate spread risk and preventing solvency from worsening under challenging market conditions. However, it is expected that more emphasis will be placed on company's ability to manage par business, with a focus on the extent of education to policyholders, the management, and shareholders to ensure a fair and conducive environment for par business to continue to prosper.

Country report: Hong Kong

All statistics have been sourced from the Insurance Authority (IA), our survey, or are based on our industry knowledge.

GENERAL BACKGROUND

PAR BUSINESS FIRST SOLD	Early 20th century.
NUMBER OF PAR OPERATORS	Most of the licenced life insurers have par portfolios.
CLOSURE TO NEW BUSINESS	Most par operators are continuing to sell par products.
TYPICAL BONUS STYLE	Both US-style cash dividend products with regular and terminal dividends and UK style reversionary/terminal bonus products exist.
TYPES OF PAR PRODUCTS	Single- and regular-premium whole life products dominate. There are also single- and regular-premium endowment and annuities products, although sales have been more limited. Single-premium whole life products that target high-net-worth individuals also exist, and these typically come with a high initial surrender value for premium financing purposes.

NEW BUSINESS VOLUMES

FIGURE 24: NEW BUSINESS VOLUMES – UNWEIGHTED NEW BUSINESS PREMIUM (HKD MILLION)

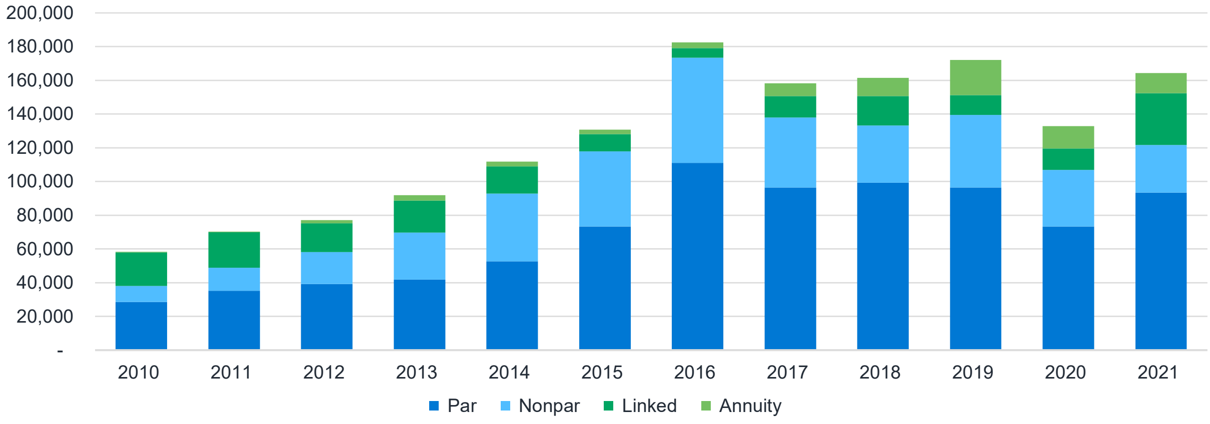
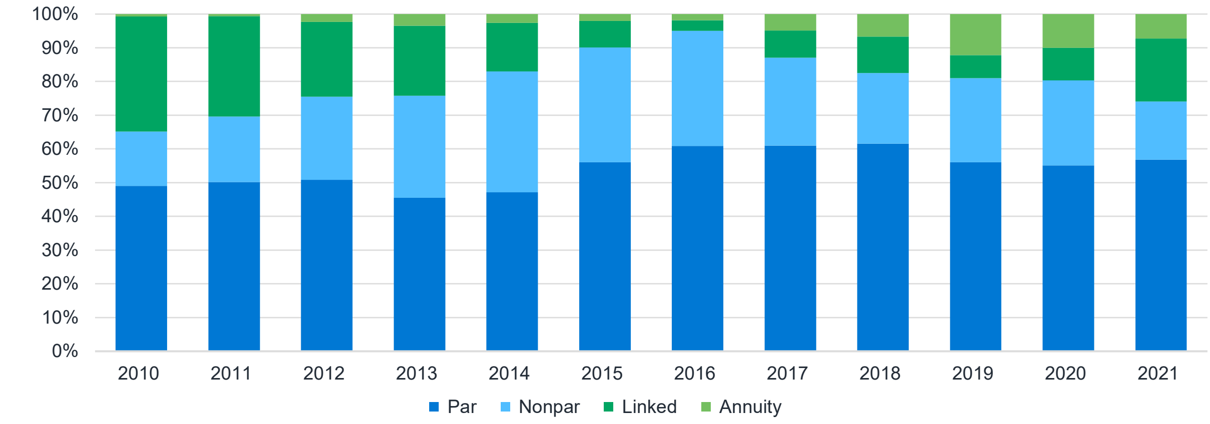


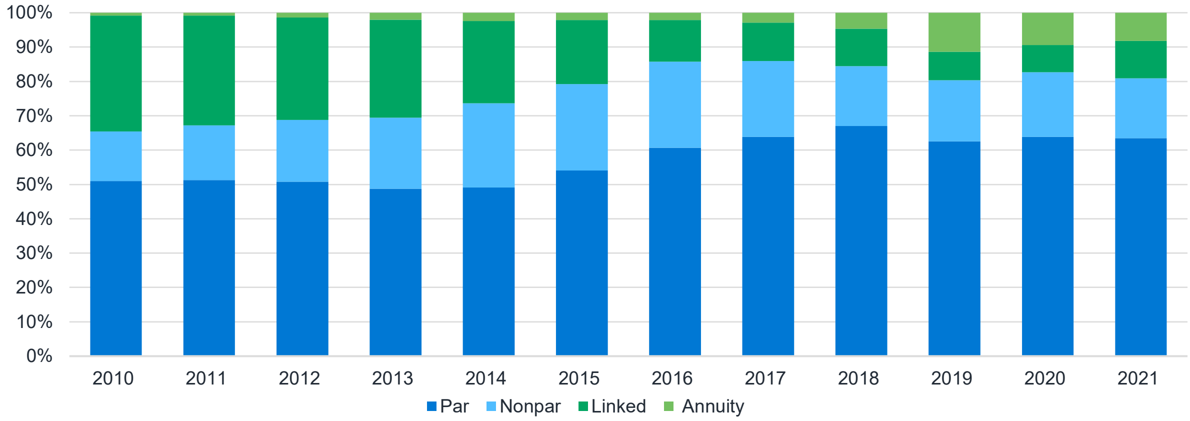
FIGURE 25: PROPORTION OF NEW BUSINESS THAT IS PAR – PROPORTION OF UNWEIGHTED NEW BUSINESS PREMIUM



New business split by company: The majority of par new business is written by the larger insurers, such as HSBC Life, AIA, Manulife, Prudential (HK) Life, China Life, BOC Life, Hang Seng Insurance, and FWD, although smaller companies have also been writing new par business.

SIZE OF IN-FORCE PAR BUSINESS

FIGURE 26: SPLIT OF IN-FORCE PAR LIABILITIES BY PRODUCT TYPE – PROPORTION OF IN-FORCE PREMIUM



REGULATION/GOVERNANCE

Historically, there have been no regulations in Hong Kong that explicitly prescribe the way par fund should be managed, although the introduction of GL16 by the IA in 2017 has put more requirements in place to enhance the fair treatment of customers and the maintenance of PRE.

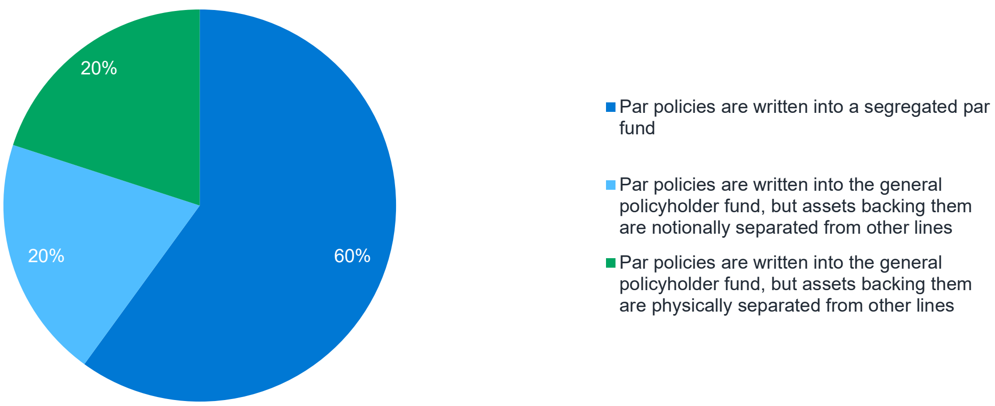
However, in 2020, the IA initiated the first industry consultation with the objective of developing a guideline on participating business management. Since then, there has been further rounds of consultation, focusing on different aspects. Based on the draft rules discussed, the new guideline is expected to bring new requirements around par fund segregation, minimum asset requirement at a par fund level post segregation, allocation of expenses and charges to the par fund, requirements for external review, and more to be confirmed. While the par fund management guideline is still at a consultation stage as at the date of this report, the draft requirements are highlighted in the following sub-sections where relevant:

Fund segregation: There are currently no regulations in Hong Kong that prescribe a standard par fund structure. Three key types of fund structures have been observed in the market:

1. Sub-fund with notionally separated pool of assets and liabilities in which the strategic asset allocation (SAA) of the sub-fund is consistent with the general fund
2. Sub-fund with physically separated pool of assets and liabilities in which the SAA of the sub-fund could be different from the general fund
3. Segregated fund in which assets are totally ring-fenced from the general fund and strict controls apply to the movement of capital into and out of the fund

Figure 27 indicates our survey results where survey participants were asked regarding their existing participating fund structure.

FIGURE 27: ARE PAR POLICIES WRITTEN INTO A SEGREGATED FUND?



The draft par fund management guideline requires companies to maintain a segregated par fund for their par business. In the latest proposal, the par fund is proposed to be at least able to cover (1) the asset shares in respect of the par business, or (2) the present value of expected future cash flows in respect of the par business. Further requirements on maintaining a minimum asset balance relative to the liabilities under HKRBC and distribution of surplus with consideration on any subsequent deficit to the par fund on a HKFRS basis are being discussed and are subject to further decision.

Shareholder transfers: There is no regulation with regard to the profit sharing between shareholders and policyholders for par policies apart from a requirement under GL16 that there should be appropriate governance and a corporate policy on the distribution of surplus, and it is not mandatory for companies to disclose their profit-sharing ratios (although this has become a requirement for Hong Kong companies selling par business in Macau as required by the Macau regulator). Similar to mentioned earlier, there is a potential requirement currently under consultation to consider any subsequent deficit to the par fund on a HKFRS basis following a distribution of surplus out of the par fund.

Brief description of solvency regime: Under the current statutory requirements (i.e., before HKRBC), policy liabilities are determined using a net premium valuation approach, and using assumptions with margins for adverse deviation, but with no allowance for lapses. Capital requirements are currently calculated using the EU Solvency I approach, defined as a percentage of statutory reserves plus a percentage of sum at risk. Capital adequacy is then measured as the ratio of financial resources over capital requirements at a company level.

Hong Kong is in the process of moving towards the HKRBC framework, a more economic balance sheet approach which is more closely aligned with the International Capital Standards (ICS), with the HKRBC framework is expected to become the statutory framework starting from 2024. Under the HKRBC framework, policy liabilities are determined as the sum of (1) current estimate of liabilities determined using a gross premium valuation (GPV) approach with best estimate assumptions, (2) a margin over current estimate that is similar to the risk margin concept under Solvency II, and (3) the time value of financial options and guarantees. Capital requirement is assessed using a scenario-based approach with required capital sufficient to cover the value at risk at 99.5% confidence level over a one-year period.

While par fund segregation is expected to be a requirement under the draft par fund management guidelines, within the latest HKRBC technical specifications there are some specific requirements for par business managed under a segregated par fund, which include:

1. **Long-term Adjustment (LTA)** – Under HKRBC, a matching adjustment (MA) is added on top of the risk-free yield curve to derive the discount rate used for valuation. Within the MA formula, there is a component called LTA, which is designed to represent the additional spread (up to 100 bps of uplift, subject to equity mix and caps) earned by equity and property invested to support par or universal life business managed in a segregated fund. In other words, having a segregated par fund could lead to the use of a higher discount rate under HKRBC, which should be beneficial to the solvency position of an insurer.
2. **Restricted capital** – The capital resources within the par fund, of which the allocation to policyholders or shareholders is yet to be determined, are referred to as the restricted capital. No diversification benefits can be recognised between restricted capital and the rest of the company's business, and therefore the risk charges in respect of the restricted capital needs to be calculated on a standalone basis. If the restricted capital is larger than the associated capital requirement, further adjustment will need to be made to the company's capital resources.

With-profits committees (or similar): There is no regulatory requirement for specific committees for par funds, although some companies have set them up following the introduction of GL16. GL16 has pointed to the use of a with-profits committee as a way to manage potential conflict between policyholders and shareholders, which is one of the minimum requirements under the corporate policy for par business.

Fund governance policies: GL16 requires insurers in Hong Kong to have a clearly documented corporate policy to ensure appropriate governance of par policies. Minimum requirements of such policy include:

1. Dividend/bonus philosophy – for dividends/bonuses setting, experience sharing, smoothing and guarantees
2. Approach to share surplus or experience
3. Justifications and reasonableness of any charges for guarantees or capital
4. Investment strategy
5. Maintenance of fairness between different products and generations
6. Smoothing mechanism and cost
7. How assets are held and managed
8. Principles and practices in determining the projected non-guarantee benefits under point-of-sale illustrations and annual in-force illustrations
9. Measures to manage potential conflict between policyholders and shareholders

Illustration requirements: The IA has formalised the illustration requirements and templates used for benefit illustrations provided to both potential policyholders and existing policyholders through the release of the Guideline on Benefit Illustrations for Long Term Insurance Policies (GL28) in 2019. As set out under GL28, sales illustrations must show both guaranteed and non-guaranteed benefits, and the investment return assumed under the non-guaranteed benefits is capped by the best estimate assumption adopted by the insurance company.

GL16 sets out a high-level requirement that additional high and low return scenarios must be provided in the illustrations to policyholders, while GL28 further defines these high and low return scenarios as 'optimistic' and 'pessimistic' scenarios and sets out a requirement that these should be based on 75th—and 25th—percentile of the investment returns in the projections of these scenarios respectively.

Fulfilment ratios disclosure: GL16 requires life insurers in Hong Kong to disclose on their company websites the fulfilment ratios for each par product series which has new policies 'recently issued' on an annual basis starting from January 2017. The fulfilment ratio is calculated as the average ratio of actual non-guaranteed dividends/bonuses declared against the illustrated amounts at the point of sale. Under the initial requirements, par product series with new policies issued since 2010 and in the previous five calendar years before the reporting year have to be included in the fulfilment ratios disclosure.

In February 2023, the IA issued a revised GL16, with effect from 1 January 2024. The revised GL16 has strengthened the scope of insurance products subject to fulfilment ratios disclosure to cover each par product series which has new policies issued since 2010 and still has policies in-force in the reporting year, unless otherwise agreed by the IA.

Other required disclosures: Post-sale, the annual statement of declared non-guaranteed benefit is provided.

Under GL16 requirements, at least an annual statement of declared non-guaranteed benefits and an updated in-force illustration are required.

Use of asset shares to guide payouts: Following the introduction of GL16, the use of asset shares in the dividend determination has become more prevalent, although not compulsory. Benefits are typically set with reference to a policy's asset shares, with the method of calculation being company-specific. A few companies perform individual asset share calculations, but most others perform such calculations using certain homogeneous groupings. The asset share broadly represents the share of the total fund which the policyholder has contributed, less their share of expenses and cost of insurance. However, depending on a company's own practice and legacy practices, some surpluses or deficits may not be shared with policyholders or with the fund at all (e.g., lapse profits, new business strain).

Our survey results show that 80% of insurers surveyed use asset shares to guide payouts, which is comparable to our previous survey results conducted in 2016. The chart below indicates the results when survey participants were asked about the level of granularity considered for asset shares to adjust dividends and bonuses. More insurers tend to adjust payouts at a more granular level, with the majority of the respondents using cohorts that take into account the year-of-entry as well as product type (or more granular), which is very different from our 2016 survey results whereby most of the survey participants said they adjusted payouts at a less granular level.

FIGURE 28: AT WHAT LEVEL OF GRANULARITY ARE ASSET SHARES CONSIDERED TO ADJUST PAYOUTS?

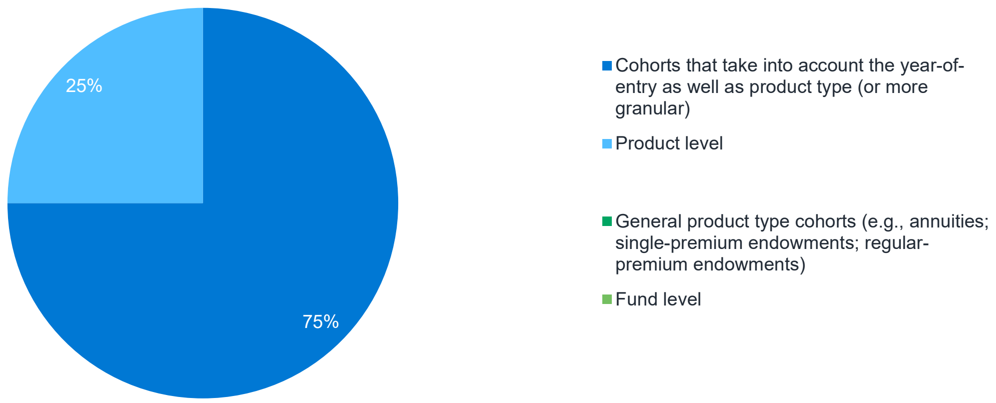
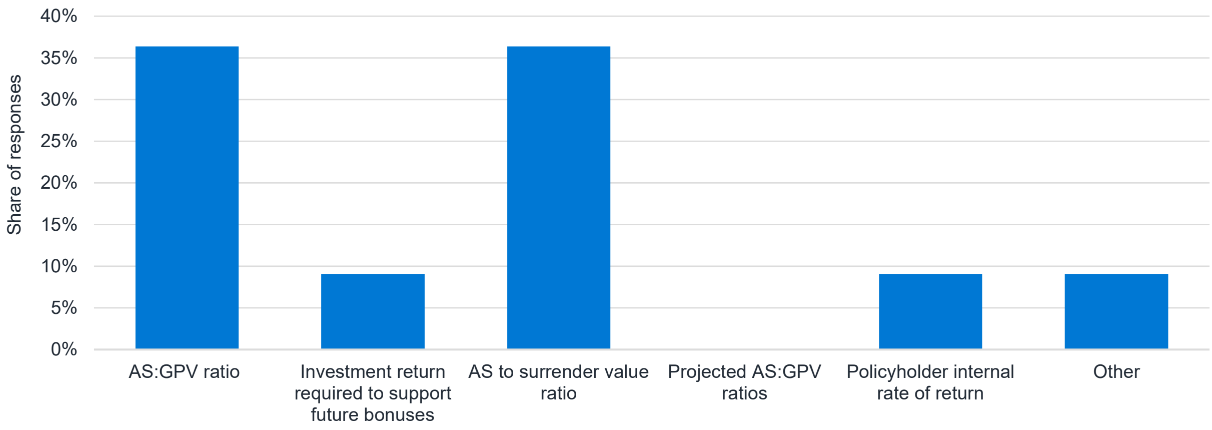


Figure 29 indicates results when survey participants were asked about metrics considered when reviewing bonus rates and they are allowed to choose all options that are applicable to them. Within the 'Other' category, some respondents pointed out that competitors' action is also a key consideration when reviewing bonus rates.

FIGURE 29: WHAT METRICS DOES YOUR COMPANY CONSIDER WHEN REVIEWING BONUS RATES?

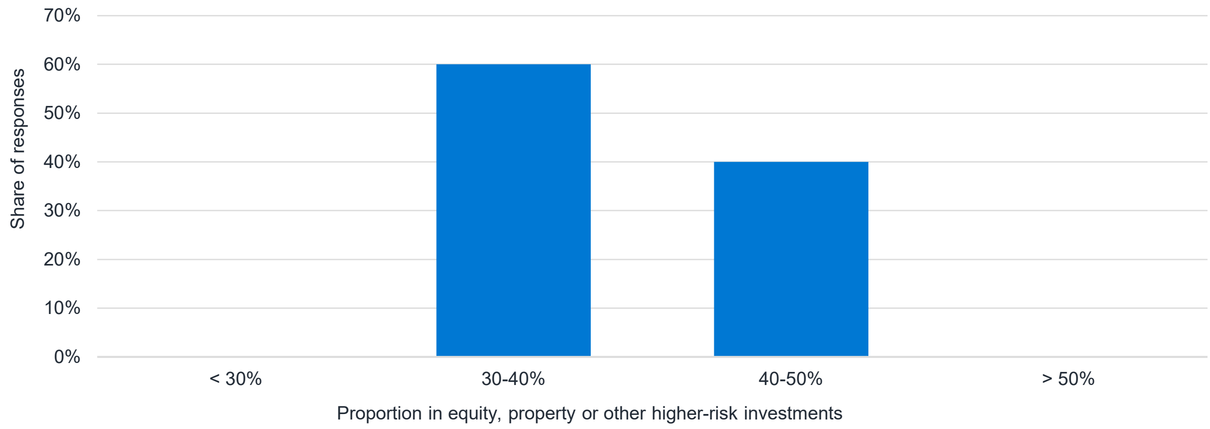


Estate: As par funds are not currently required to be segregated from other policyholder funds, the concept of an estate is not considered in existing regulations. Treatment of estate has also not yet been discussed explicitly under the draft par fund management guidelines as at the date of this report.

INVESTMENTS

Investment mix: Figure 30 indicates the proportion of investments backing par policies that are equity, property or other higher-risk investments. Compared to our previous survey results conducted in 2016, insurers have demonstrated a stronger risk appetite in investing in higher-risk assets. Apart from equity and property, some insurers are also investing in private equity/venture capital, private debt, infrastructure debt, asset-backed securities, and hedge funds in their investment portfolios. It is also observed that for some individual products, the investment in equity, property, or other higher-risk investments has gone beyond 60%.

FIGURE 30: APPROXIMATELY WHAT PROPORTION OF INVESTMENTS BACKING PARTICIPATING POLICIES ARE IN EQUITY, PROPERTY OR OTHER HIGHER-RISK INVESTMENTS?



Aggregate investment returns: Not required to be disclosed.

Hypothecation of assets: Varies by company, with some companies using a single investment strategy for the whole fund and others hypothecating assets to back different groups of liabilities.

BONUSES

General approach: Typically, dividend scales are set as part of the product design, with the aim of sticking to them as much as possible. Bonus supportability is regularly reviewed and recommended by the AA to the board (at least annually).

Bonus split between reversionary, terminal, and cash dividends: Both US-style cash dividend products with regular and terminal dividends and UK-style reversionary/terminal bonus products exist.

Given the implementation of IFRS17 and HKRBC, the majority of companies have designed higher terminal bonus products in an effort to reduce the guaranteed component of returns to customers and at the same time offer a higher level of total return.

Trends in bonus amounts: Under the recent volatile economic environment, companies seem to be able to smooth out the short-term volatilities in the market through the use of smoothing mechanisms, and are therefore able to disclose fulfilment ratios that are not far off from 100% for the products launched in the last five years where fulfilment ratios are disclosed. For those companies that perform dividend review at a more granular level, it is not unusual for them to have adjusted dividends/bonuses in both directions, depending mainly on the historical market movements.

Country report: India

Figures quoted are in INR and data is for financial year FY22 (1 April 2021 to 31 March 2022), unless otherwise stated.

GENERAL BACKGROUND

PAR BUSINESS FIRST SOLD	19th century.
NUMBER OF PAR OPERATORS	All licensed life insurers have par funds.
CLOSURE TO NEW BUSINESS	All par operators continue to sell par products except Sahara Life, which is closed to new business.
TYPICAL BONUS STYLE	Majority is reversionary and terminal bonuses, but some companies have cash dividend products.
TYPES OF PAR PRODUCTS	Regular- and single-premium endowment and whole life products dominate. Money-back options are also common.

NEW BUSINESS VOLUMES

Product types: Majority endowments, whole of life.

New business split: Figure 31 shows new business APE written in FY 2022 split by company, in INR millions. Because the proportion of par business at an industry level is dominated by the government-owned Life Insurance Corporation of India (LIC), which is almost entirely par, it is more helpful to consider private players only.

FIGURE 31: NEW BUSINESS VOLUMES BY COMPANY

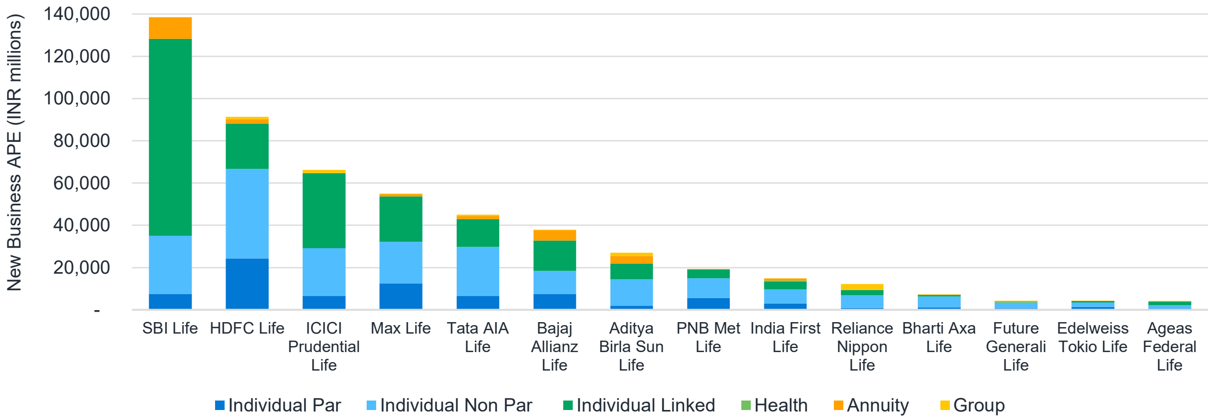
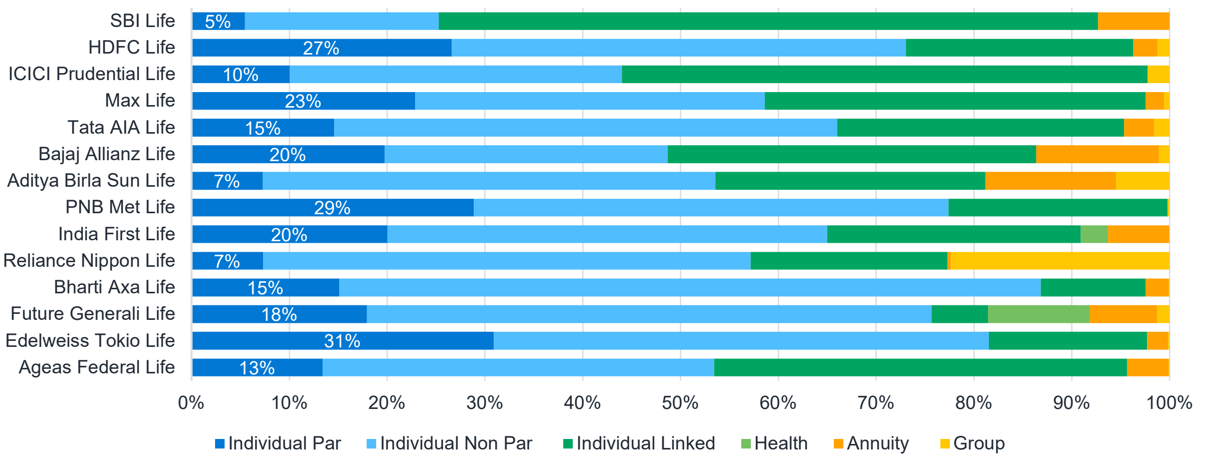


FIGURE 32: PROPORTION OF NEW BUSINESS THAT IS PAR – SPLIT OF NB APE BY PRODUCT TYPE



IN-FORCE VOLUMES

Size of in-force par business FY22: LIC's par gross total premium was INR 2.7 trillion (USD 32.5 billion) at the end of FY 2022. Because the proportion of par business at an industry level is dominated by LIC, which is over 60% par, it is more helpful to consider private players only. We show below the split of FY 2022 policy liabilities for the same 14 companies as above.

FIGURE 33: SIZE OF LIABILITIES SPLIT BY COMPANY

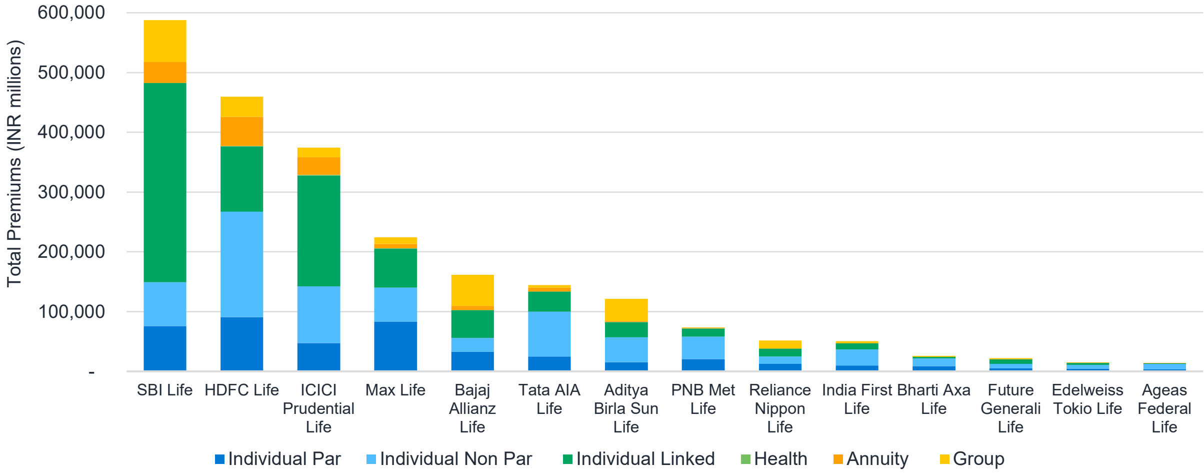
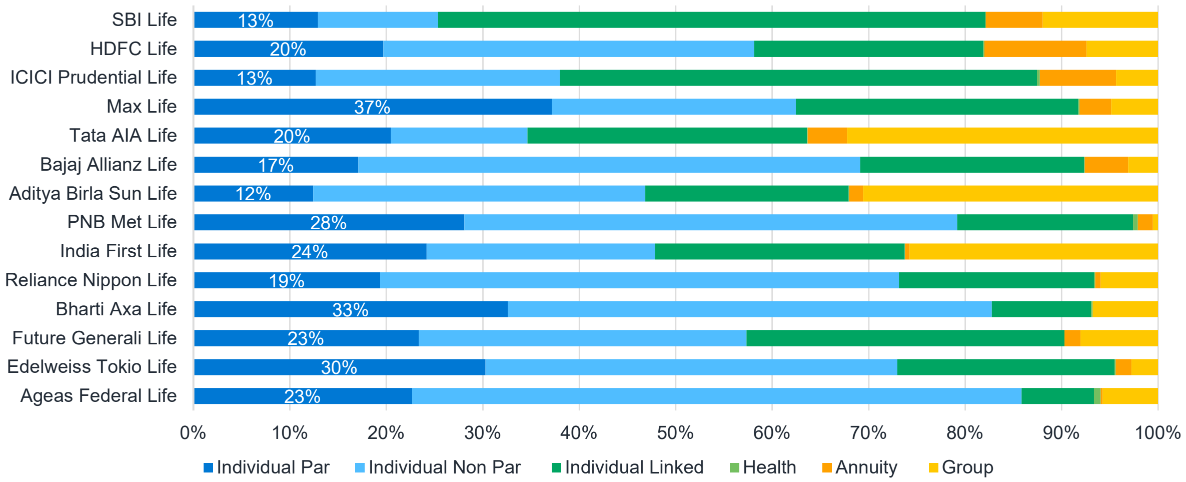


FIGURE 34: SPLIT OF IN-FORCE LIABILITIES BY PRODUCT TYPE



REGULATION/GOVERNANCE

Fund segregation: Par policies must be maintained in a separate fund.

Shareholder transfers: Shareholders entitlement to profits distributed from a par fund are limited to a maximum of 10% (i.e., a 90:10 'gate'). The 90:10 gate creates a barrier for new entrants to par business, as the shareholder will need to inject initial seed capital into the fund to support potential new business strain, which can then only be transferred back through the 90:10 gate in the future.

Brief description of solvency regime: Policy liabilities are set using a GPV methodology, based on assumptions that include margins for adverse deviation. The bonuses used in this calculation should, however, be set in line with the valuation rate of interest (i.e., adjusted downward from actual levels to reflect the margins in the reserving basis), meaning that the resulting liabilities may be close to the asset share of the policy.

Capital requirements are calculated using a simple factor-based solvency margin. Many companies consider that their total solvency margins (across all lines of business) may be funded either from the par fund, non-par fund, or a combination of both. This can mean that excess assets in a par fund are available to reduce the company's cost of capital.

The insurance regulator is currently developing a risk-based solvency regime which may substantially affect the way that participating business is reserved for.

With-profits committees (or similar): In accordance with regulatory requirements, each company has a 'with-profits committee' with the Appointed Actuary (AA), chief executive officer (CEO), chief financial officer (CFO), and an independent director sitting as members. With-profits committees have been required to approve the calculation of the asset share since 2013, and since 2019 have also been required to review:

- What constitutes policyholders' reasonable expectations (PRE)
- The quantum of expenses allocated to the participating fund
- The bonus earning capacity of the business
- Treatment of surplus assets within the fund
- Changes in surrender value scales

Fund governance policies: Many companies have internal documents detailing their interpretation of PRE, and broad principles on which the par fund will be managed. These documents are, however, not publicly available and non-mandatory, and the level of detail varies across companies.

All of the companies that responded to our previous survey in 2016 reported having an internal governance policy. This question was not asked in our 2023 survey, but we expect the previous results to remain indicative of current market practice in this regard.

Illustration requirements: Policyholders are provided with an illustration at the point of sale detailing the regular and terminal bonus rates the policy can expect to achieve at 4% p.a. and 8% p.a. investment returns. Companies cannot charge expenses to asset shares at a higher level than those used when deriving illustrated values as per professional guidance.

There is also a tacit regulatory expectation that policies illustrate at least a non-negative IRR to the customer in the 4% p.a. scenario.

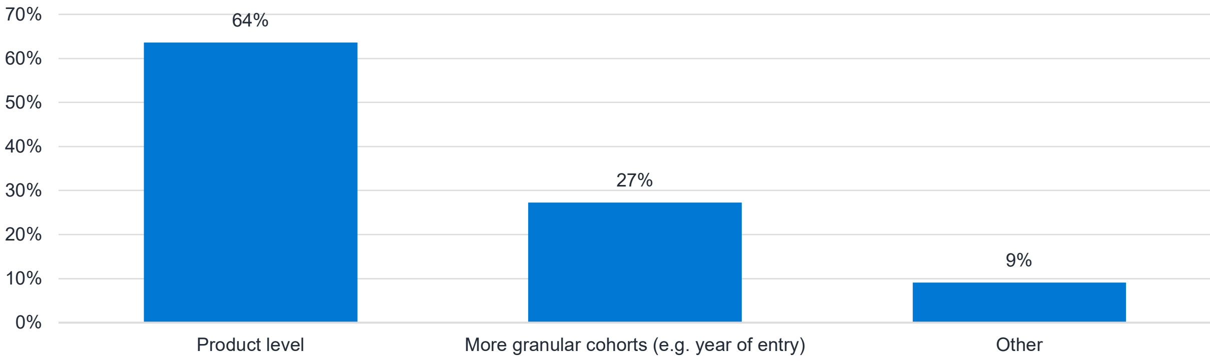
Other required disclosures: Policyholders are also provided with an annual bonus statement.

Use of asset shares to guide payouts: Benefits are typically set with reference to a policy's asset share, whose method of calculation is company-specific. The asset share broadly represents the share of the total fund which the policyholder has contributed, less their share of expenses and cost of insurance. However, depending on company practice and legacy, some surpluses or deficits may not be shared with policyholders, or with the fund at all, e.g., lapse profits, or new business strain. Companies may additionally use illustrated bonuses to guide payouts.

At what level of granularity are asset shares considered to adjust payouts?

Figure 35 indicates the results of our survey when participants were asked about the level of granularity used to consider asset shares to adjust payouts.

FIGURE 35: ASSET SHARE GRANULARITY FOR BONUS DECISIONS - INDIA

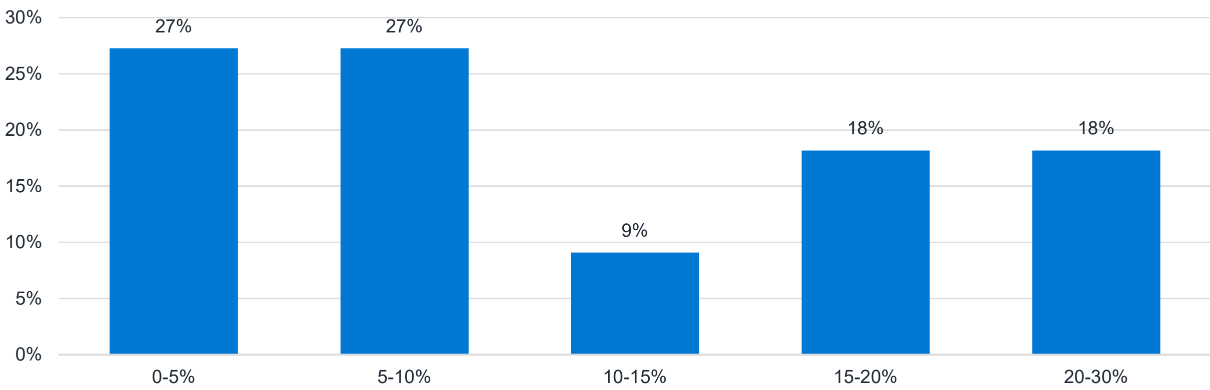


Estate: A policyholder's asset share is dictated by company policy, but might not include all policies surpluses, potentially leading to spare assets forming an 'estate' or pool of unallocated surplus. Some companies choose to hold this estate in the Funds for Future Appropriation (FFA), which may then be used for solvency capital, while others show this estate simply as a reserve. As a result, it is difficult to get a clear picture of the level of free assets, or estate, which may be available for other purposes than meeting explicit benefits, such as smoothing of bonuses or to fund new business strain.

INVESTMENTS

Investment mix: Exposure to equities and corporate bonds is capped at 35% of the combined par and non-par funds and investments in these classes is usually even lower than the cap. Figure 36 is an extract from our survey. While we note that we would expect investment-grade corporate bonds to not be considered as 'high-risk,' this would be up to the interpretation of the survey respondents:

FIGURE 36: INVESTMENT MIX – APPROXIMATELY WHAT PROPORTION OF INVESTMENTS BACKING PARTICIPATING POLICIES ARE IN EQUITY, PROPERTY OR OTHER HIGHER-RISK INVESTMENTS? - INDIA



Aggregate investment returns: Not publicly disclosed.

Hypothecation of assets: Varies by company, with some companies using a single investment strategy for the whole fund, and others hypothecating assets to back different groups of liabilities.

BONUSES

General approach: Reversionary bonuses are usually added to policies throughout the term. Any excess of the asset share over the accumulated benefit is then paid out as a terminal bonus on maturity. Terminal bonus rates may be set at a product level each year to achieve broad (but not complete) equity across policyholders. Surrender scales are typically set to achieve a similar level of equity between surrendering and continuing policyholders upon exit, but not in all cases.

Country report: Indonesia

GENERAL BACKGROUND

PAR BUSINESS FIRST SOLD	Early 20th century.
NUMBER OF PAR OPERATORS	Not publicly disclosed but understood to be very few (less than 20% of licensed life insurers).
CLOSURE TO NEW BUSINESS	Most providers continue to sell the par products and several companies have launched or revamped par products in the last five years.
TYPICAL BONUS STYLE	Most of the par business is UK-style with reversionary and terminal bonuses. Cash dividends are more popular for older par products.
TYPES OF PAR PRODUCTS	Regular- and single-premium endowments and whole life.

NEW BUSINESS VOLUMES

New business volumes: The average share of new business for par as reported by our survey respondents was in the range of 4% to 5%.

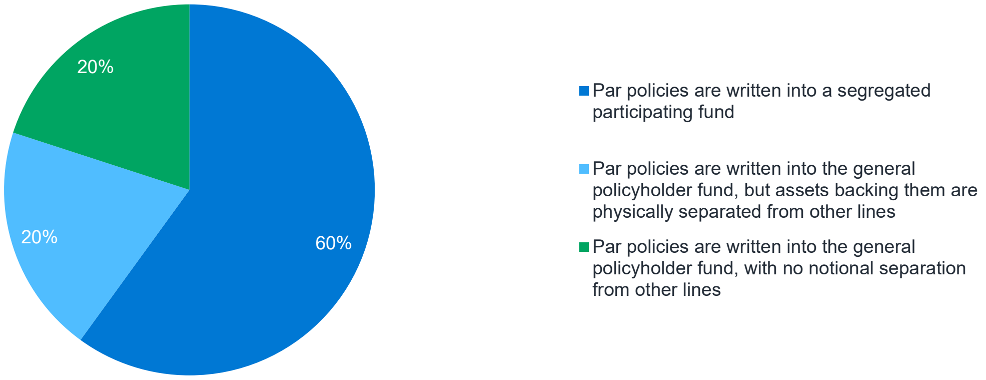
Size of in-force par business: The average share of par in-force business as reported by our survey respondents was in the range of 10% to 20%.

REGULATION/GOVERNANCE

Fund segregation: Not required by regulation.

Figure 37 indicates our survey results when survey participants were asked about fund segregation.

FIGURE 37: SEGREGATION OF PAR POLICIES



Shareholder transfers: Restrictions and limits on profit sharing are not prescribed in the regulations, but may be specified within the company's par policy.

Brief description of solvency regime: Indonesia moved to a GPV reserving methodology in 2013, with risk-based capital requirements that were further refined in 2016. The reserving requirements for par policies are not clearly defined, but par reserves would typically include both guaranteed and non-guaranteed benefits for solvency reporting.

With-profits committees (or similar): No regulatory requirement for specific committees to be established for par products.

Fund governance policies: There is no regulatory requirement for such documents. Market practice varies according to internal requirements from the head office or the board of directors, but it is not common for companies to develop very detailed documentation.

Illustration requirements: There are no illustration requirements specific to par products with both guaranteed and non-guaranteed benefits shown in the product illustration.

Other required disclosures: There are no additional required disclosures specific to par products.

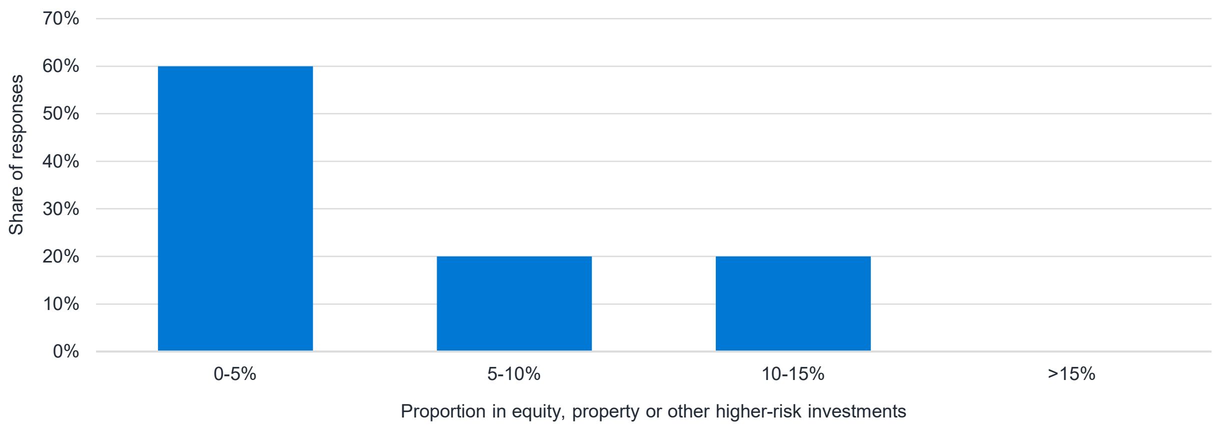
Use of asset shares to guide payouts: There is no regulatory requirement to adopt asset shares to guide payouts, although, based on the survey result, two out of seven of companies reported using asset shares.

Estate: Not typically considered, as par funds are either not segregated or any estate would not be of a significant size.

Other developments: When modelling par products for IFRS 17, three out of seven companies are using a VFA model.

INVESTMENTS

FIGURE 38: INVESTMENT MIX – APPROXIMATELY WHAT PROPORTION OF INVESTMENTS BACKING PAR POLICIES ARE IN EQUITY, PROPERTY OR OTHER HIGHER-RISK INVESTMENTS?



Aggregate investment returns: Not publicly disclosed.

Hypothecation of assets: Not typically considered as it is not common to have par funds segregated.

Use of derivatives: More than 70% of the respondents do not use derivatives for par business as part of its investment strategy.

BONUSES

General approach: Bonus rates are typically illustrated based on the expected future investment returns and are set based on performance of assets over the previous year. Only a few companies use asset shares as a reference.

Country report: Malaysia

All statistics are based on aggregated figures across all par funds in the market, unless otherwise stated. Statistics have been sourced from Bank Negara Malaysia and based on our survey and industry knowledge. Takaful business (which also has elements of surplus sharing) has been excluded.

GENERAL BACKGROUND

PAR BUSINESS FIRST SOLD	Early 20th century.
NUMBER OF PAR OPERATORS	14 of the 14 licenced life insurers have par funds.
CLOSURE TO NEW BUSINESS	Most par operators are continuing to sell par products, albeit with reducing volumes for most players. Two of the par operators have closed their par funds to new business.
TYPICAL BONUS STYLE	The majority of business is UK-style with reversionary and terminal bonuses. Cash dividend products are also popular.
TYPES OF PAR PRODUCTS	A large proportion of business is individual traditional par policies. There is also a small volume of par annuities arising from the national annuity product ‘Skim Anuiti Konvensional KWSP’ (SAKK), which is a deferred annuity par plan. This national annuity product was sold in 2000 and has been closed to new business since 2001.

NEW BUSINESS VOLUMES

A summary of new business APE for the life insurance industry in Malaysia is shown below, with par business being categorised under ‘Individual’ business. It is noted that individual business will include both par and non-participating businesses. As shown in the graphs below, the 2022 new business volumes for individual business are small, at less than 30% of total new business APE compared to the more dominant investment-linked business. This is consistent with our 2023 par survey results, where around two-thirds of the survey respondents said that sales of par products are around 10% or less of their total new business APE, and for the remainder it is 10% to 25%. We note that our survey sample does not include all life insurers in Malaysia, but does cover 13 of the 14 life insurers.

FIGURE 39: NEW BUSINESS VOLUMES – WEIGHTED NEW BUSINESS PREMIUM (MYR MILLION)

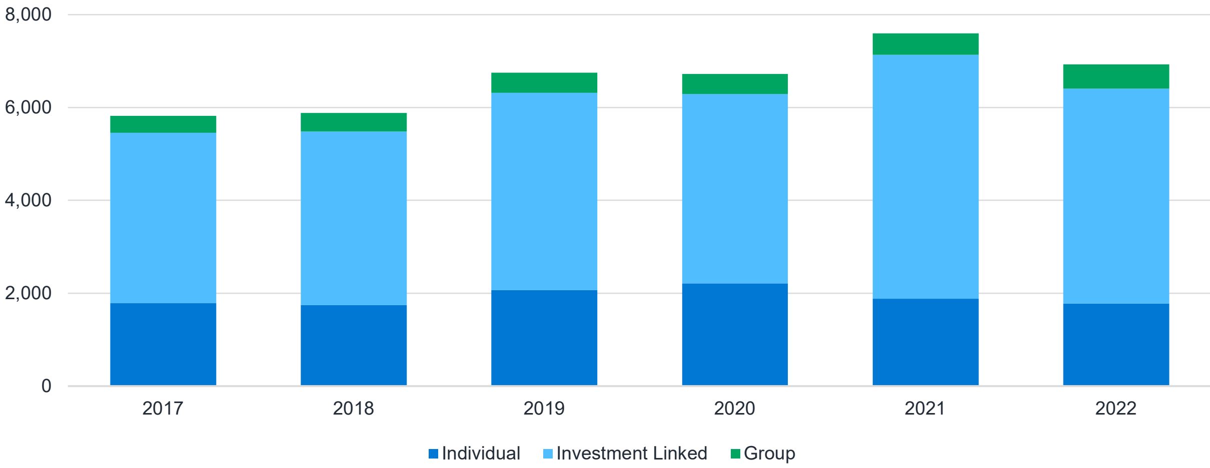
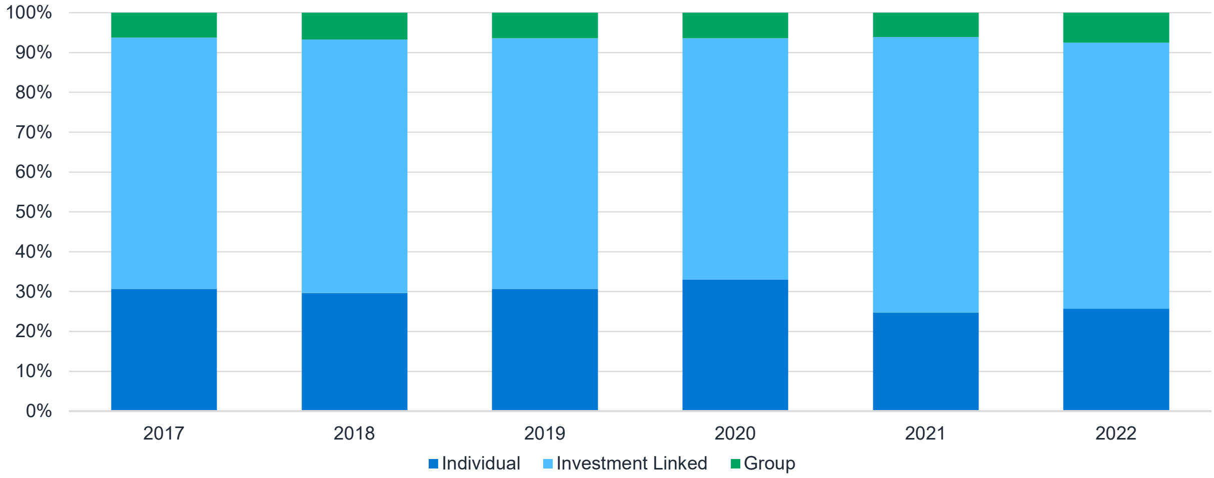


FIGURE 40: PROPORTION OF NEW BUSINESS THAT IS PAR – PROPORTION OF NEW BUSINESS WEIGHTED PREMIUM IN EACH PRODUCT TYPE



Product types: Regular-premium endowment and whole life products (often with a limited premium paying period) continue to dominate.

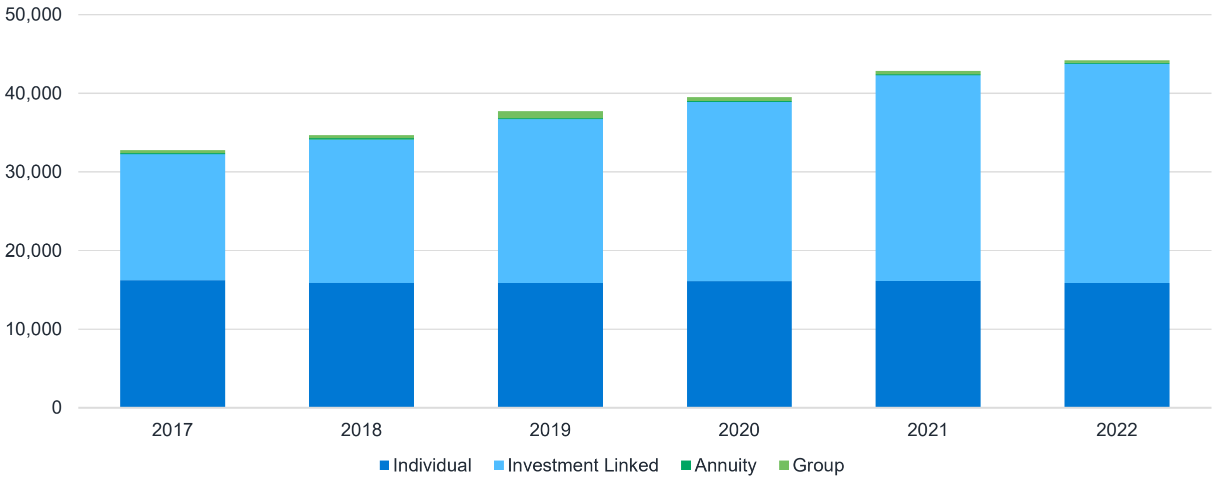
New business split by company: The majority of par new business remains with the large insurers, such as AIA, Great Eastern, and Prudential. However, it is noted that since the introduction of the Risk-Based Capital Framework in 2009, these companies have also changed the focus of their sales to investment-linked business, with investment-linked business making up a greater proportion of new business sales.

New business threat: Around a third of the survey respondents view low interest rates and/or poor investment returns as a key threat to their companies successful par product offering. Other key threats identified in the survey include restrictions on sale illustrations, the risk of future changes by the regulators and the attractiveness of alternative product offerings.

IN-FORCE VOLUMES

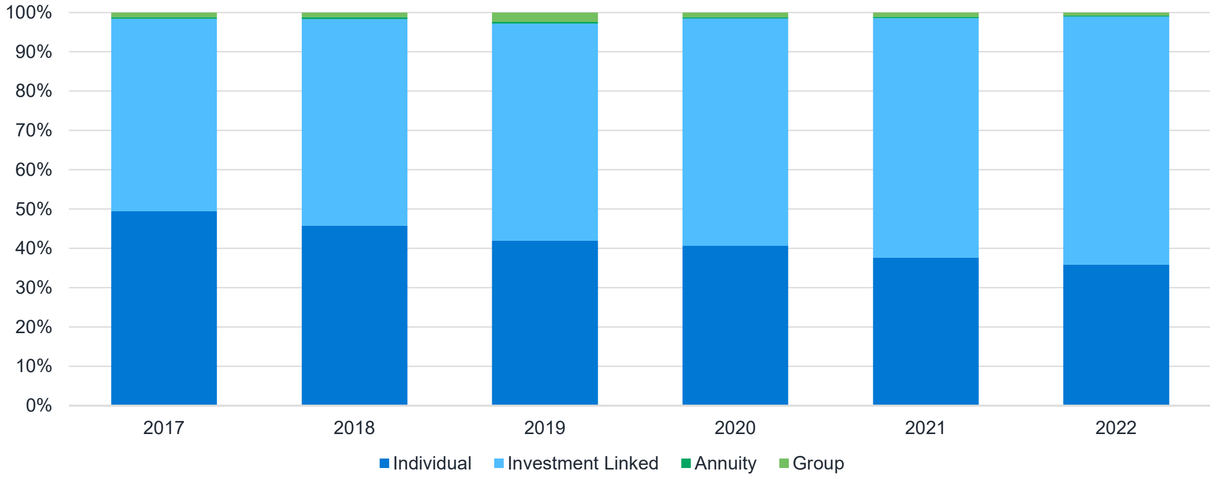
Size of in-force par business: Par business in Malaysia is categorised under 'Individual' business (alongside non-participating business). It can be observed that there has been a marginal reduction in individual business in the last six years, down from MYR 16.2 billion in 2017 to MYR 15.9 billion in 2022 (measured in terms of APE).

FIGURE 41: SIZE OF IN-FORCE PAR BUSINESS – WEIGHTED IN-FORCE PREMIUM (MYR MILLION)



Split of in-force par liabilities by product type: Individual business, which is predominantly par business, remains a sizeable proportion of the in-force premium, at 36% of the total in-force premiums in 2022 in terms of APE. However, this has decreased significantly from around 50% in 2017.

FIGURE 42: SPLIT OF IN-FORCE BUSINESS BY PRODUCT TYPE – PROPORTION OF IN-FORCE WEIGHTED PREMIUM IN EACH PRODUCT TYPE



This is line with our survey results, whereby we observed more than half of the survey respondents stated that the share of in-force par business (in terms of reserves) for their companies was less than 30%.

REGULATION/GOVERNANCE

Fund segregation: Par policies must be maintained in a separate fund.

Shareholder transfers: For large par funds, the shareholders' entitlement to profits distributed from a par fund is typically around 10% (i.e., a 90:10 split); however, the allowable limit increases as the size of the par fund shrinks. Specifically, the maximum proportion of the shareholders' entitlement to profits from the par fund is limited to the following weighted average of the maximum proportion shown in Table 1 and the corresponding tiered amount in the par fund:

TABLE 1: MAXIMUM PROPORTION OF SHAREHOLDERS'ENTITLEMENT TO PROFITS FROM PAR FUND

AMOUNT IN THE PAR FUND	MAXIMUM PROPORTION
First MYR 300 m	20%
Next MYR 300m (i.e. MYR301m – MYR600m)	15%
All exceeding MYR 600m	10%

Therefore, the maximum transfers to shareholders from the par fund is calculated as

(First MYR300m x 20% + Next MYR300m x 15% + Remaining amount exceeding MYR600m x 10%) / Aggregate par fund assets

Brief description of solvency regime: Liabilities determined using a prospective actuarial valuation using a GPV methodology, discounted at the appropriate risk discount rate.

The liability in respect of policies of a par insurance fund shall be taken as the higher of the guaranteed benefit liabilities or the total benefit liabilities, derived at the fund level, where:

- For the guaranteed benefit liabilities, only the guaranteed benefits (including past declared bonuses) are considered, discounting all cash flows at the risk-free discount rate
- Under the total benefits liabilities, total guaranteed and non-guaranteed benefits, assuming current bonus scales, are considered, by discounting all future cash flows at the fund-based yield of the par fund

Capital requirements are calculated using a RBC approach, allowing for insurance risks and asset risk charges (including duration mismatch). Financial resources of the fund include the valuation surplus plus an allowance for future non-guaranteed benefits in the liabilities (equal to 50% of the difference between total policy liabilities and total guaranteed liabilities). Capital adequacy at a company level is then measured as the ratio of financial resources over capital requirements.

With-profits committees (or similar): There is no regulatory requirement to establish specific committees to oversee par funds, and the onus for governance and oversight is with the board of directors. In view of this, several companies have established committees to help the board manage their par business.

Fund governance policies: All par fund operators are required to maintain an internal governance policy ('policy on the management of its par life businesses' or 'MPB policy'), which is approved by the board of directors. There is a requirement for an independent review at least once every three years to provide the board with an assessment of how practices are aligned with the MPB policy, the effectiveness of the MPB policy in practice, and recommendations for improvements.

Illustration requirements: Sales illustrations must show both guaranteed and non-guaranteed benefits and are to be shown on two investment return assumptions, currently 2% and 5% (effective January 2017 as outlined in the MPB guidelines).

Illustrations must also show projections of distribution costs. A comparison against a pure term life policy is also required. The full illustration requirements are outlined in the MPB guidelines.

Other required disclosures: Post-sale, an annual bonus statement must summarise the key quantitative information underlying the par policies including the bonuses declared for the current and preceding five years, the vested bonuses, and the cash surrender value.

The annual bonus statement must also provide quantitative information on the fund's performance over the past five years and a qualitative description of the performance of the fund over the previous accounting period, a summary of the key factors affecting bonuses (e.g., investment performance or operating experience), the future outlook of the par life fund which may affect bonuses, and an explanation of how past experience and the future outlook of the par life fund will impact future bonuses. Both the upside and downside risks must be presented to avoid undue PRE.

Bonus revisions: Bonus revisions must be approved by the board of directors and must be submitted to Bank Negara Malaysia (the Malaysian regulator) before the implementation of the bonus revision.

Insurers must notify policyholders of any bonus revisions, prior to the effective date of the bonus revisions. Communication to policyholders must explain the type of bonuses affected, the extent of the revision, and the impact to the benefit amounts under their par life policies.

Use of asset shares to guide payouts: For par life policies sold on or after 1 July 2005, the benefit payout on death and maturity is the higher of 100% of the asset share or guaranteed benefits.

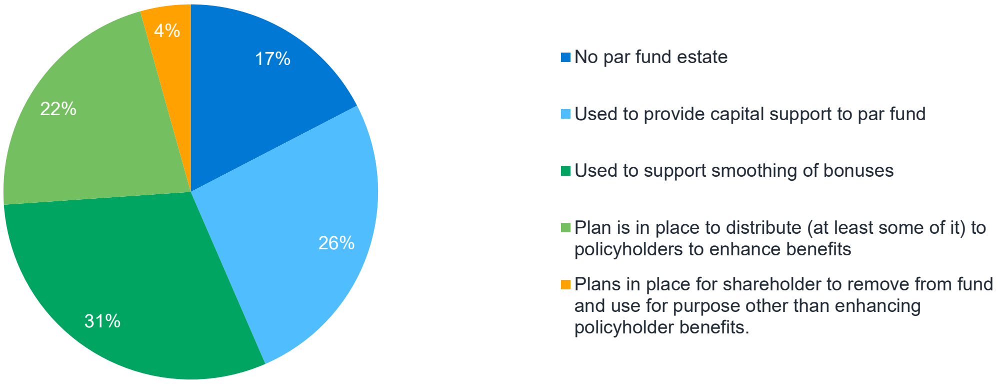
For par life policies sold prior to 1 July 2005, the benefit payout on death and maturity must be between 90% and 110%, inclusive, of the asset share at the cohort level.

Estate: This is defined by the regulations as the difference between:

- The market value of the total assets allocated to the par life fund net of 'other liabilities'
- The higher of the aggregate asset share of the par life policies and the par life reserve for guaranteed benefits

Figure 43 indicates our survey results for Malaysian respondents when asked about how the estate is currently planned to be used in the near future.

FIGURE 43: USES OF ESTATE – IF YOUR BUSINESS'S PAR FUND HAS AN ESTATE, HOW IS IT CURRENTLY PLANNED TO BE USED IN THE NEAR FUTURE (SELECT ALL THAT APPLY)



In the latest MPB guidelines issued in July 2023, Bank Negara Malaysia has introduced additional requirements around the estate, including requiring insurers to carry out a one-off assessment to reaffirm the reliability of the value of the estate and to ascertain that the estate is not directly attributable to any identifiable groups of policyholders.

Insurers are also required to perform an annual assessment to determine the amount of estate to be retained as working capital, and any excess estate beyond that required for the working capital must be distributed.

If the distribution of excess estate is in line with the limits on transfers to the shareholders' fund as set out in paragraph 13.7 of the Management of Insurance Funds policy document, insurers will only need to notify Bank Negara Malaysia of the distribution within four months of the insurer's financial year-end.

If the proposed distribution of excess estate is not in line with the limits set out in the Management of Insurance Funds policy documents (i.e., if insurers want to transfer a higher proportion of the estate to shareholders), then insurers will need to obtain prior approval from Bank Negara Malaysia. In addition, insurers will need to commission an Independent Review Panel (IRP) comprising of actuarial and legal representatives with experience in par fund management, and at least one member representing the policyholders' interests. The IRP will need to assess if the proposed distribution of the excess estate is appropriate and reasonable, and whether it complies with the requirements of the MPB guidelines. The cost of the IRP will need to be met by the shareholders' fund and cannot be compensated from the estate.

Any estate that has been distributed cannot be clawed back to increase the insurers' working capital in the future.

Management of small[2] and shrinking par funds: Where an insurer's par fund is small, has been on a declining trend, and is expected to shrink to an unsustainable level in the foreseeable future, it is required to monitor risks and put in place remedial or mitigation actions to address these risks such that policyholders' interests are safeguarded. The Appointed Actuary is required to inform the board and include additional disclosures in the Financial Conditions Report on the historical and projected trends of the par fund and cohorts (e.g., number of policies, net cash flows, asset shares, etc.), risks monitored, key risks from stress and scenario tests and remedial actions taken to manage those risks, including communications and bonus strategy to manage PRE.

[2] The 2023 MPB guidelines paragraph 16.2 deems a par fund is small if (a) the size of the par fund is less than RM2 billion, (b) the number of in-force policies is less than 200,000 and (c) the annual premiums are less than RM200 million.

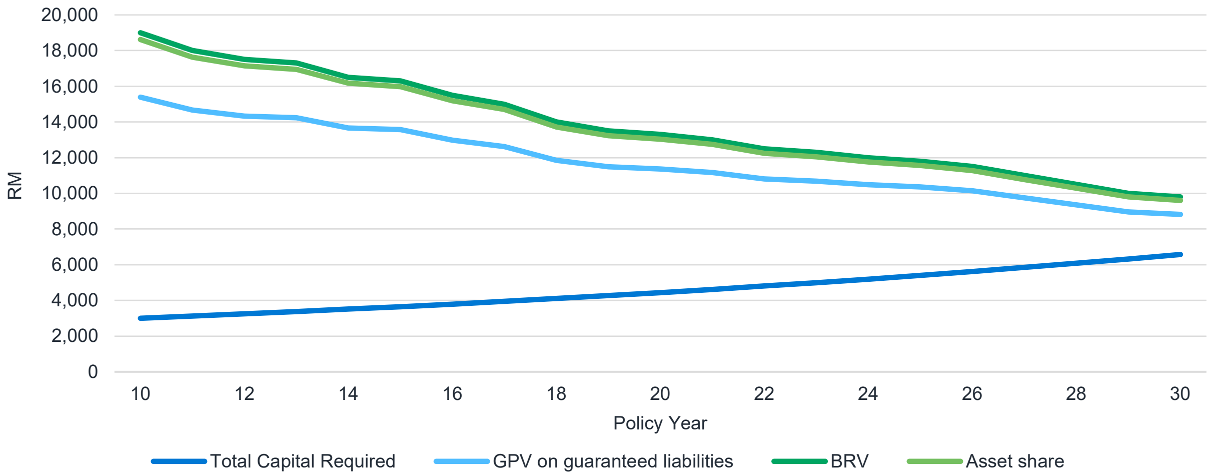
FUND STRENGTH AND CAPITAL

Trend in solvency levels: With the decline in new business volumes, companies are starting to experience maturing par funds with increasing levels of guarantees. In addition, there are more stringent regulatory requirements which require the benefit payout to be within 90% and 110% of asset shares at the cohort level. For some companies these two factors are leading to increased strain on solvency positions.

Alternative capital view: Companies with par funds that are already closed to new business, or with declining levels of new business, experience the following capital implications, which are also illustrated in the graph below (Figure 44).

- As bonuses are declared and accrued, there is increasing Total Capital Required (TCR).
- As the level of guaranteed benefit increases due to the reversionary bonuses paid to policyholders, the gap between the total policy liabilities and total guaranteed liabilities reduces, which in turn reduces the available Tier 1 capital. Hence there is less capital available in the par fund to meet capital requirements.
- Solvency issues are likely to arise as reserves, which are typically based on the Bonus Reserve Valuation (BRV, a GPV reserve using best estimate assumptions that allows for future expected non-guaranteed benefits) are close to the fund value (typically the aggregate asset shares). The fund value depends on the current market value of investments and is typically more volatile than the reserves, which may result in insolvency at certain times.

FIGURE 44: ALTERNATIVE CAPITAL VIEW – ILLUSTRATIVE GRAPH TO HIGHLIGHT THE CHALLENGES IN MAINTAINING A MATURING PRE-ASSET SHARE PAR BUSINESS IN A DECLINIGN PAR FUND UNDER RBC IN MALAYSIA



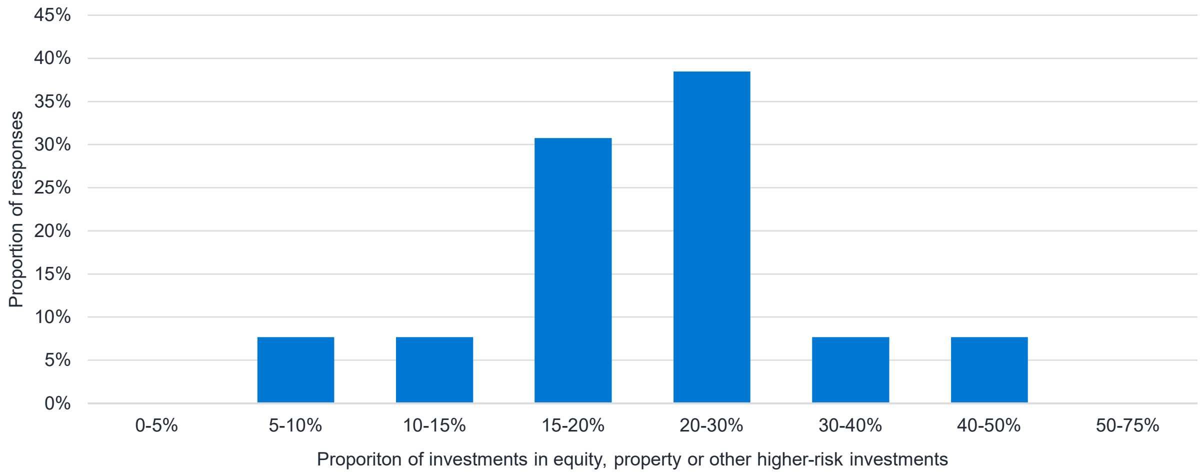
The overall effect of the recent increase in interest rates on solvency positions varies across the industry, depending upon the extent to which the reduction in liability values offset market value losses.

INVESTMENTS

Investment mix: Previously, companies relied on equity investments to support higher best estimate investment return assumptions for par business, that in turn could support higher illustrative returns, particularly for the pre-2005 block of business. However, with the introduction of the Risk-Based Capital Framework, which applies a high-risk charge for equity investment, companies have reduced their allocation to equity investments, with a higher allocation to bonds.

Figure 45 indicates our survey results when participants were asked about their investments in equity, property, or other higher-risk investments. Most companies in Malaysia have an equity backing ratio of 30% or less in their par funds.

FIGURE 45: INVESTMENT MIX – APPROXIMATELY WHAT PROPORTION OF INVESTMENTS BACKING PARTICIPATING POLICIES ARE IN EQUITY, PROPERTY OR OTHER HIGHER-RISK INVESTMENTS?



Use of alternative asset class: Only a third of the survey respondents shared that their companies invest in private equity, private debt, and asset-backed securities in their par fund.

Use of derivatives: It is also noted that derivatives are not as widely used in Malaysia compared to other more developed markets such as Singapore and Hong Kong. Based on our survey, more than half of the survey respondents stated that their companies do not make use of derivatives for their par business. Those who make use of derivatives have done so for interest rate and currency hedging, and for investment efficiency (e.g., synthetics). Malaysian insurers have not made use of derivatives for credit spread risk hedging and equity risk hedging.

Aggregate investment returns: Investment returns have been decreasing from the high investment returns of 8% to 9% p.a. observed in the 1980s and 1990s towards the lower investment returns currently observed of around 4% to 6% p.a. over the last decade.

Hypothecation of assets: Most companies typically use a single investment strategy for the whole fund. We note that although there are companies who adopt a different investment strategy for certain blocks of business in the par fund, this is not common practice.

BONUSES

General approach: For pre-2005 products, bonus scales are typically set as part of the product design, with the aim of sticking to them as much as possible. Bonus supportability is regularly reviewed (at least annually) and if necessary bonus rates are revised. Terminal bonus rates are actively adjusted to bring payouts in line with asset shares.

Bonus split between reversionary, terminal, and cash dividends: For pre-2005 products, a significant proportion of the bonuses is in the form of a terminal bonus, as companies choose to keep reversionary bonus rates low to minimise the level of guarantees. Subsequently BNM has clamped down on the practice of excessive reliance on terminal bonuses.

Trends in bonus amounts: Over the last decade, companies have faced pressure on regular bonus rates in view of the lower expected long-term investment returns of around 4% to 6%, compared with the original bases used to price the products (which were as high as 7% to 9% for the products sold in the 1980s and 1990s). From our survey results, 11 (out of 14) companies have reduced bonus rates in the past decade, with around half of the survey respondents having cut bonuses at least twice during this period. In contrast, only seven companies have increased bonuses at least once in the past decade.

PRE considerations: From our survey results, more than two-thirds of the survey respondents state that illustrations to policyholders and historical bonus rates are key factors in shaping PRE in Malaysia.

Country report: Singapore

All statistics are based on aggregated figures across all par funds in the market, unless otherwise stated. Statistics have been sourced from the statutory Monetary Authority of Singapore (MAS) returns and the results of our survey, unless otherwise stated. We note that the 2022 MAS statistics do not include figures for the HSBC heritage par fund following the merger of HSBC Life and AXA Life as at 31 December 2022.

GENERAL BACKGROUND

PAR BUSINESS FIRST SOLD	Early 20th century.
NUMBER OF PAR OPERATORS	11 of the 22 licenced life insurers have par funds.
CLOSURE TO NEW BUSINESS	All 11 par operators are continuing to sell par products.
TYPICAL BONUS STYLE	Majority is UK-style with reversionary and terminal bonuses, but some cash dividend products also exist and are becoming more popular for retirement income products.
TYPES OF PAR PRODUCTS	Regular- and single-premium endowment and whole life products dominate. There is also a small volume of par annuities.

NEW BUSINESS VOLUMES

FIGURE 46: NEW BUSINESS VOLUMES

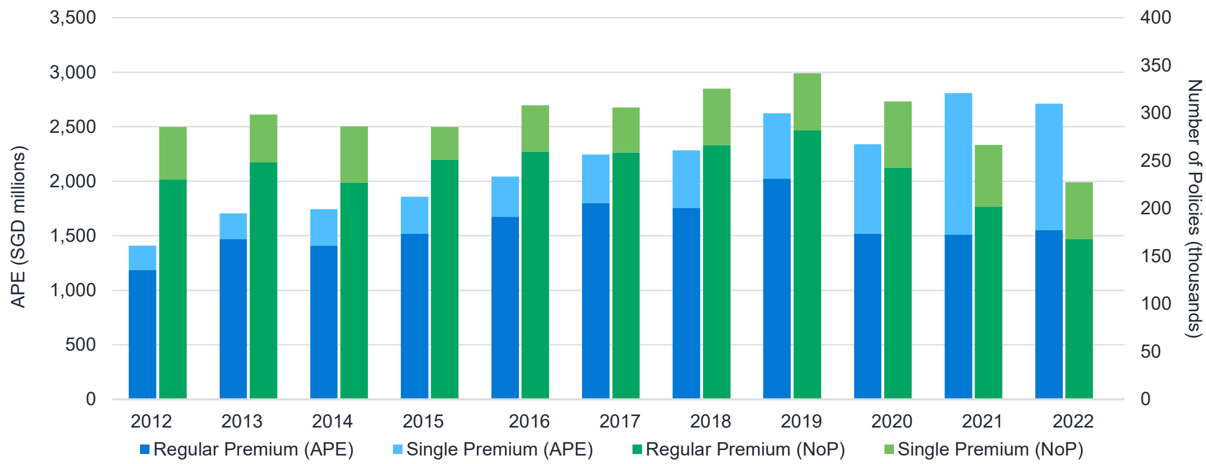


FIGURE 47: PROPORTION OF NEW BUSINESS THAT IS PAR – SPLIT OF TOTAL LIFE NEW BUSINESS (APE)

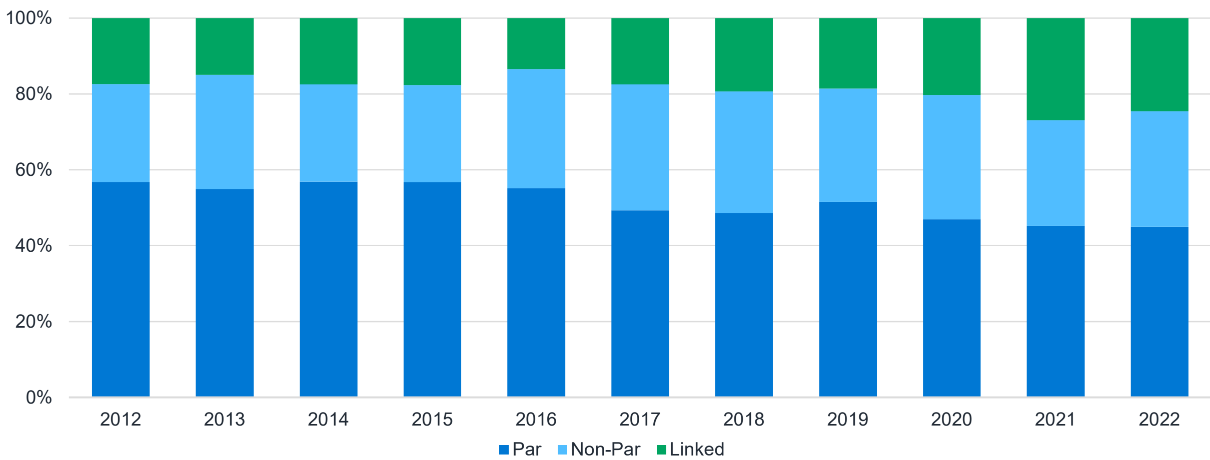


FIGURE 48: PRODUCT TYPES – 2022 NEW BUSINESS APE SPLIT

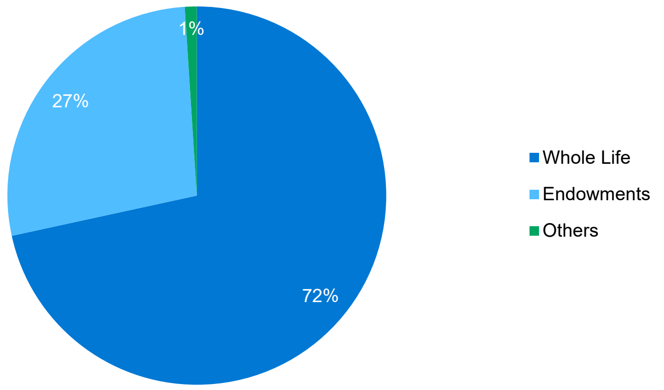
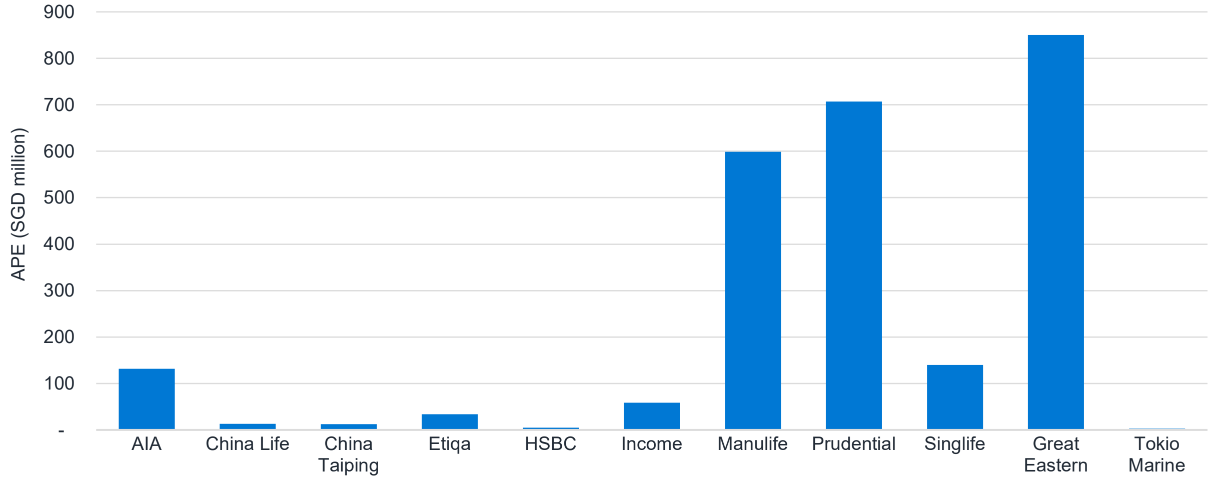


FIGURE 49: 2022 NEW BUSINESS SPLIT BY COMPANY



IN-FORCE VOLUMES

FIGURE 50: SIZE OF IN-FORCE PAR BUSINESS AS AT 31 DECEMBER EACH YEAR – GROWTH IN IN-FORCE PARTICIPATING BUSINESS

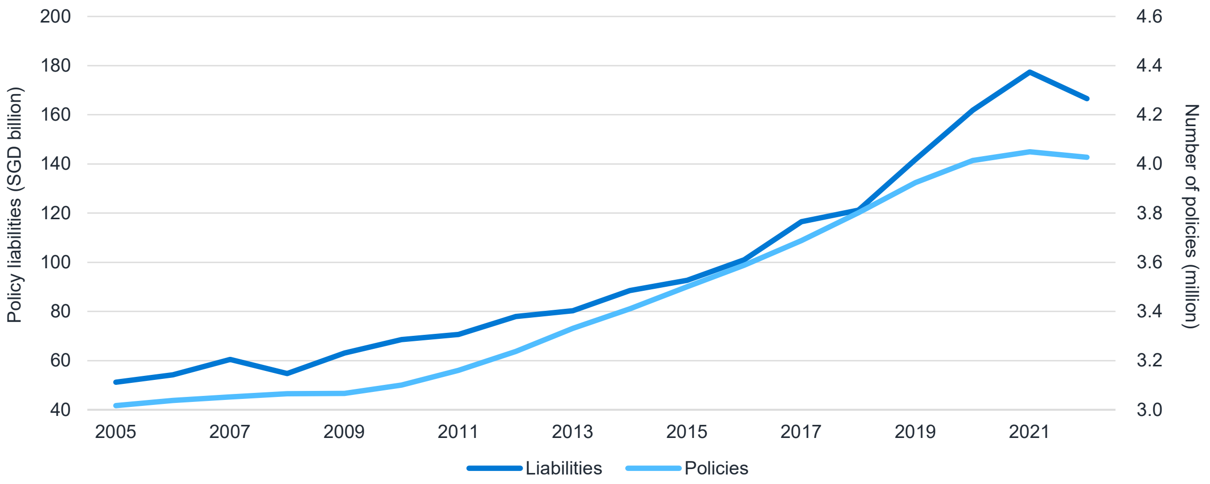


FIGURE 51: SPLIT OF IN-FORCE PAR LIABILITIES BY PRODUCT TYPE AS AT 31 DECEMBER EACH YEAR

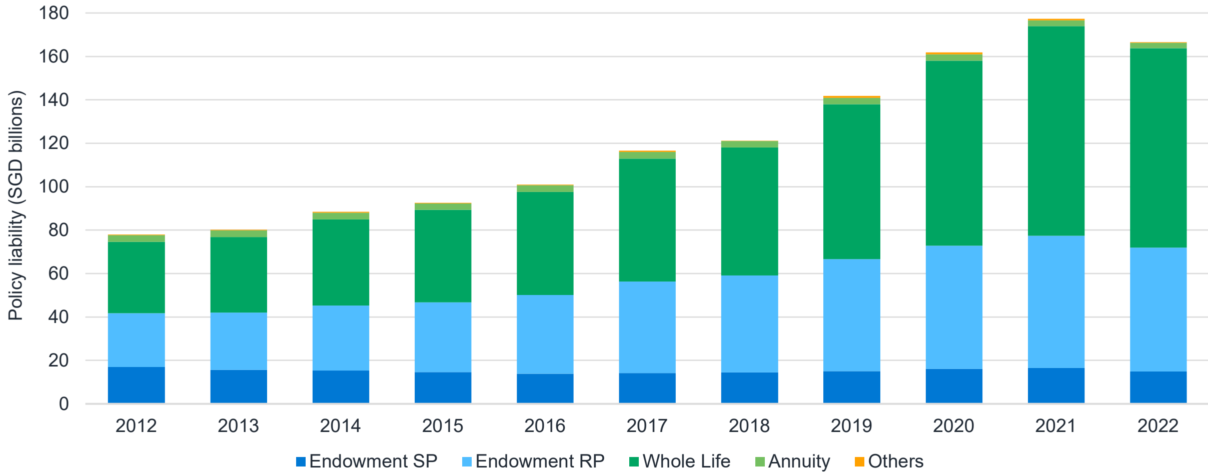
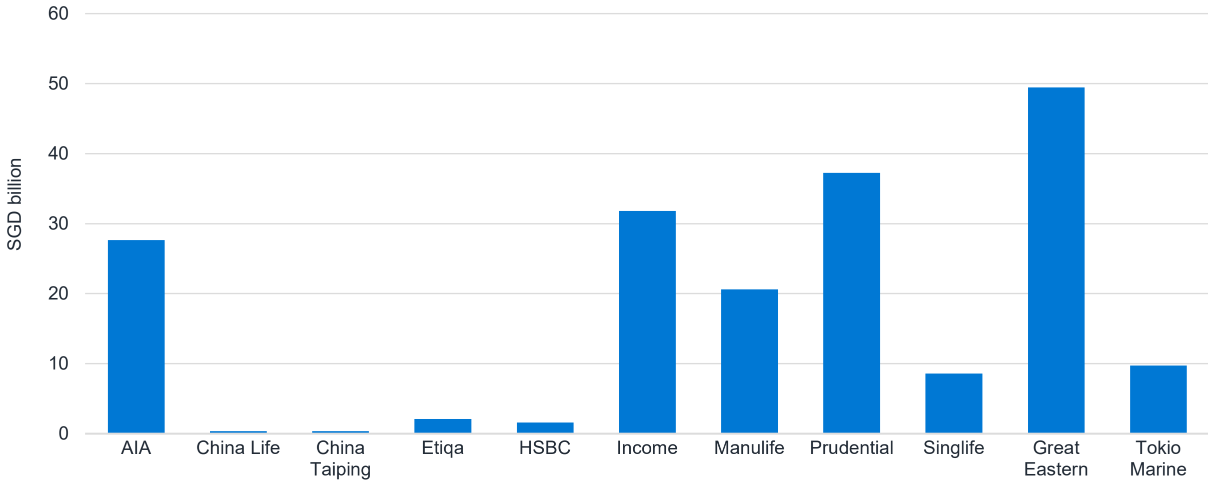


FIGURE 52: SIZE OF PAR FUNDS AS AT 31 DECEMBER 2022 SPLIT BY COMPANY



REGULATION/GOVERNANCE

Fund segregation: Par policies must be maintained in a separate fund.

Shareholder transfers: Shareholders entitlement to profits distributed from a par fund are limited to a maximum of 10% (i.e., a 90:10 split).

Brief description of solvency regime: Minimum condition liabilities (MCL) for par policy liabilities are calculated on a gross premium valuation (GPV) basis, allowing for guaranteed benefits only and discounted using risk-free discount rates (with allowances for illiquidity premium or matching adjustment). A separate best estimate liability (BEL) is also calculated on a GPV basis, but with allowance for future non-guaranteed benefits and discounted using a best estimate future investment return.

The policy liabilities recognised in the fund are set equal to the higher of the total MCL, total BEL, or the total assets of the fund (with some exceptions; for example, if shareholders have injected some ring-fenced capital).

Capital requirements are calculated using an RBC approach, allowing for insurance risks and asset risk charges (including duration mismatch), which was updated in 2020 to the new RBC2 framework. The financial resources of the par fund are the assets in the surplus account (shareholder funds specifically attributed to support the par fund, but outside of the fund itself, and the 90:10 gate) plus an allowance for non-guaranteed benefits in the liabilities (equal to the difference between total policy liabilities and MCL liabilities). The Fund Solvency Ratio (FSR) is then measured as a ratio of financial resources over capital requirements.

Consideration of policyholder interests: There is no regulatory requirement for specific committees to oversee par funds. The results of our previous survey, conducted in 2016, suggested that one company that responded did have a specific board committee for this, but the majority (66.7%) of respondents relied on the Appointed Actuary to advocate for policyholders, with one other respondent's company relying on the board of directors to fulfil this role.

Fund governance policies: All par fund operators are required to maintain an internal governance policy, which is approved and reviewed annually by the board of directors.

Illustration requirements: Illustrations for both guaranteed and non-guaranteed benefits are to be shown on two interest rates, currently: 4.25% per annum (p.a.) and 3.00% p.a. Illustrations must also show projections of distribution costs.

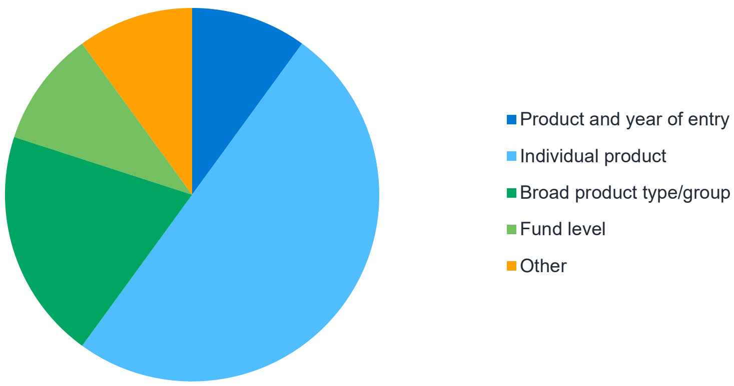
Other required disclosures: At the point of sale, insurers must provide a product summary including information on investment strategy, bonus policies, and an assessment of risks. Actual investment returns and expense ratios for the par fund for the last three years must also be disclosed.

Each year, insurers must send policyholders an Annual Bonus Update that includes a review of past performance and future outlook for fund performance, details of bonuses approved in the year, and updates on changes in future non-guaranteed bonuses. Where there is a change to bonus rates, updated illustrations of policy benefits must be provided.

Use of asset shares to guide payouts: Companies will typically consider asset shares as part of their management of the par funds. There is no regulatory requirements dictating a relationship between asset shares and benefit amounts; however, the Singapore Actuarial Society (SAS) Standards of Actuarial Practice (SAP) L03 does give significant guidance on the use of asset shares in the management of par business and notes that they are commonly used.

Figure 53 indicates the Singapore results of our 2023 survey when participants were asked about the level of granularity of asset shares that are considered for payouts.

FIGURE 53: AT WHAT LEVEL OF GRANULARITY ARE ASSET SHARES CONSIDERED TO ADJUST PAYOUTS?



Based on the survey, all Singapore companies indicated that they use asset shares to guide payouts, with one company saying that it uses book-value asset shares and the other nine all using market values. Typically, bonus scales will only be changed when current bonus scale affordability falls outside of acceptable ranges, as defined in companies' par fund governance policies.

Estate: Because of the approach of assuming policy liabilities are at least equal to the total value of assets in the fund, the formal concept of an 'estate' is not recognised in the reported balance sheet. However, funds can have assets in excess of asset shares, which from a par fund management perspective can be considered as 'estate'. From our industry knowledge, we do not expect many funds to have significant estates (in excess of 10% of total assets).

FUND STRENGTH AND CAPITAL

FIGURE 54: TREND IN SOLVENCY LEVELS – AGGREGATE FUND SOLVENCY RATIO FOR ALL SINGAPORE PAR FUNDS

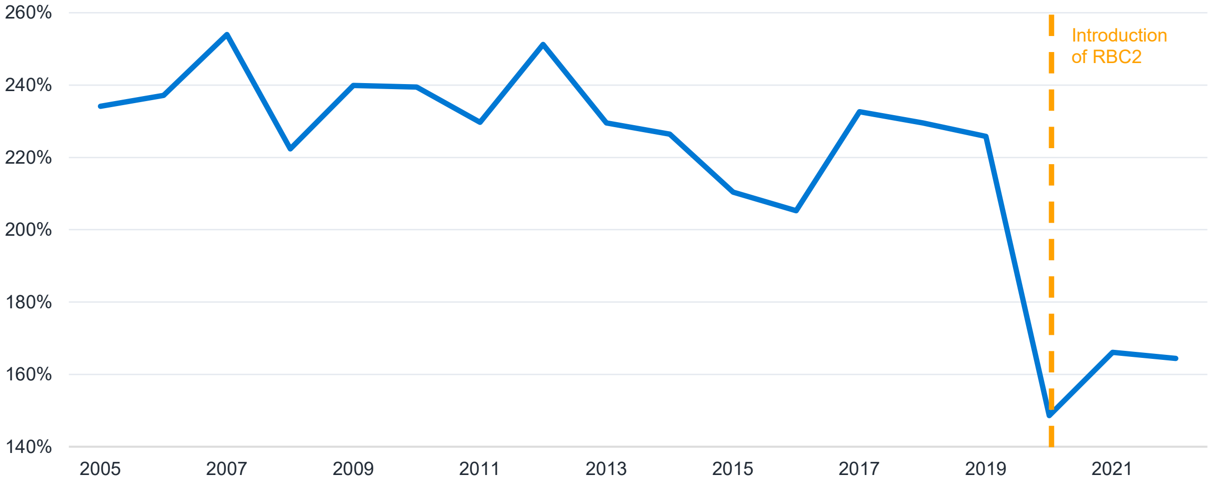
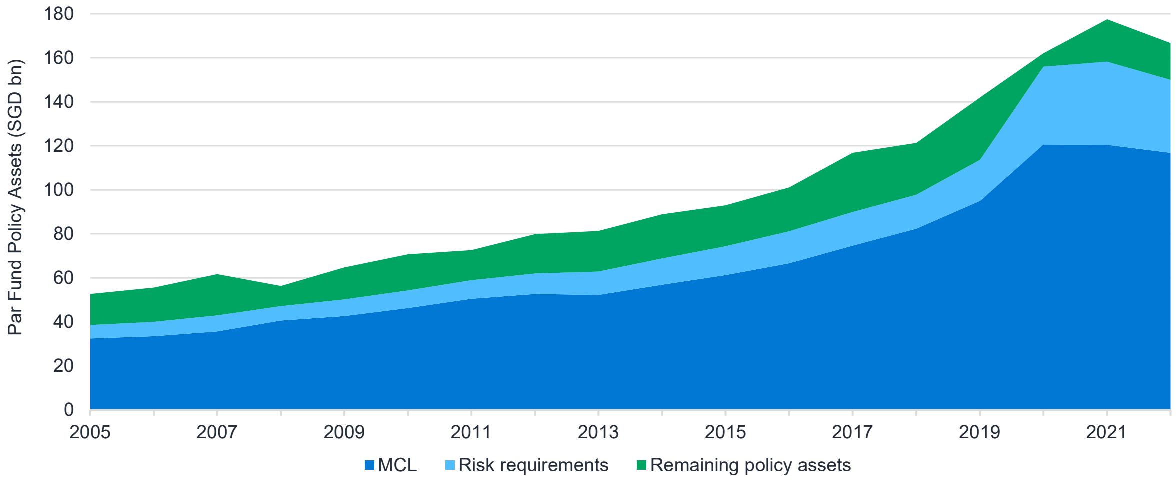


FIGURE 55: ALTERNATIVE CAPITAL VIEW – COMPARISON OF AGGREGATE PAR FUND POLICY ASSETS AGAINST MCL AND FUND RISK REQUIREMNETS

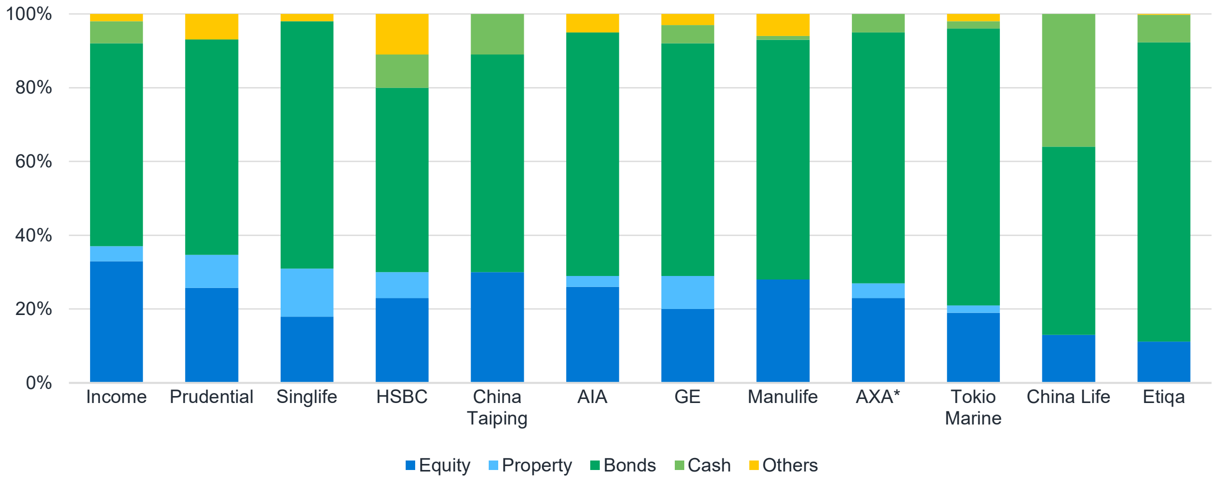


The introduction of RBC2 in 2020, together with the fall in interest rates in reaction to the COVID-19 pandemic, led to a drop in par fund solvency ratios in 2020. The MAS introduced transitional measures that acted as an add-on to the available capital to reflect the difference in MCL under the previous RBC basis and the new RBC2 basis, which linearly tapered down over two years from the start of 2020 to the end of 2021.

The alternative capital view shows the remaining policy assets beyond those required to meet the risk requirements at an aggregate industry level, but this excludes the transitional measures and shareholder capital support provided via the surplus account. We can see that at the industry level there was only a very small buffer as at 31 December 2020, and indeed at individual company level there were several companies that needed to rely on both the transitional measures and shareholder capital support. The interest rate rises over 2021 and 2022 have provided relief to the capital position of par funds, which has helped lead to improved solvency positions even with the loss of the transitional measures and shareholders taking back some of the capital support they had previously injected to the surplus accounts. We have also seen insurers adopting capital efficiency programs to improve par fund solvency, in particular through adding and extending the application of the matching adjustment to the par fund.

INVESTMENTS

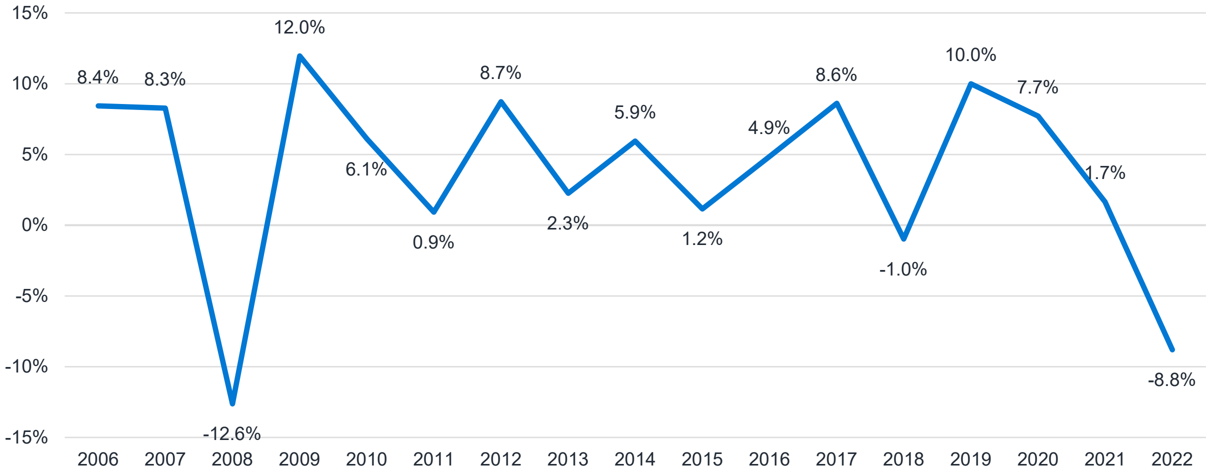
FIGURE 56: INVESTMENT MIX (BASED ON INFORMATION FROM 2023[1] PAR FUND UPDATES AS PUBLISHED ON INSURER'S WEBSITES) – PAR FUND ASSET MIX BY COMPANY AS AT END-2022[1]



1. 2023 par fund update for Etiqa is not available, so information shown is from its 2022 update, reflecting the position as at 31 December 2021.

2. AXA merged with HSBC at the end of 2022. Figures are shown separately for the legacy AXA and legacy HSBC par funds.

FIGURE 57: AGGREGATE INVESTMENT RETURNS – NET INVESTMENT RETURN FOR AGGREGATE OF PAR FUNDS



Hypothecation of assets: Varies by company, with some companies using a single investment strategy for the whole fund, and others hypothecating assets to back different groups of liabilities.

Use of derivatives: All but one of the 10 companies we surveyed said that they make use of derivatives in their par funds. All of the nine said they use derivatives for currency hedging and six of the nine said they use them for interest rate hedging. One insurer said they used derivatives for credit risk hedging and there were two respondents each for using derivatives for equity risk hedging and investment efficiency (e.g., synthetics).

Use of alternative assets: 70% of the Singapore respondents to our survey indicated that their par funds are using some type of alternative assets as part of their investment strategy. Private equity was the most common (60% of respondents), but private debt (40%), infrastructure debt (30%), hedge funds (30%), and asset-backed securities (20%) were all also used by some funds.

BONUSES

General approach: Typically, bonus scales are set as part of the product design, with the aim of maintaining them as much as possible. Bonus supportability is regularly reviewed (at least annually) and if affordability is outside of acceptable ranges bonus rates are increased or cut. However, terminal bonuses are not as actively managed as they are for post-2005 business in Malaysia, for example.

Based on the responses to our survey, Singapore insurers reduced bonus rates 2.6 times over the last 10 years, on average, and increased bonus rates 1.2 times, on average. This indicates a fairly static approach to bonus management, with adjustments in less than four years out of 10 on average.

FIGURE 58: BONUS SPLIT BETWEEN REVERSIONARY, TERMINAL, AND CASH DIVIDENDS – SPLIT OF COST OF BONUS BY DIFFERENT BONUS TYPES

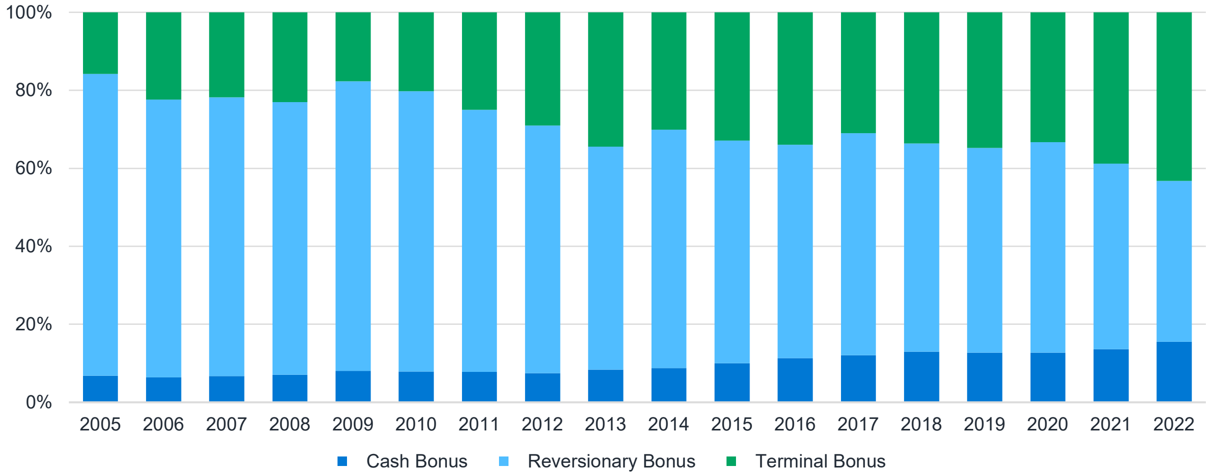
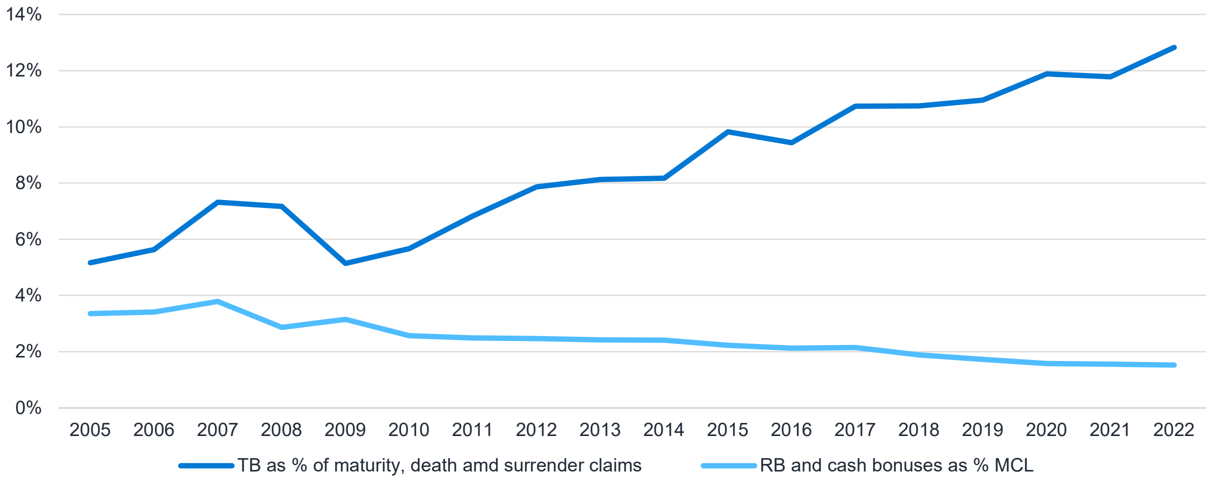


FIGURE 59: TRENDS IN BONUS AMOUNTS – REGULAR AND TERMINAL BONUS TRENDS



Country report: Sri Lanka

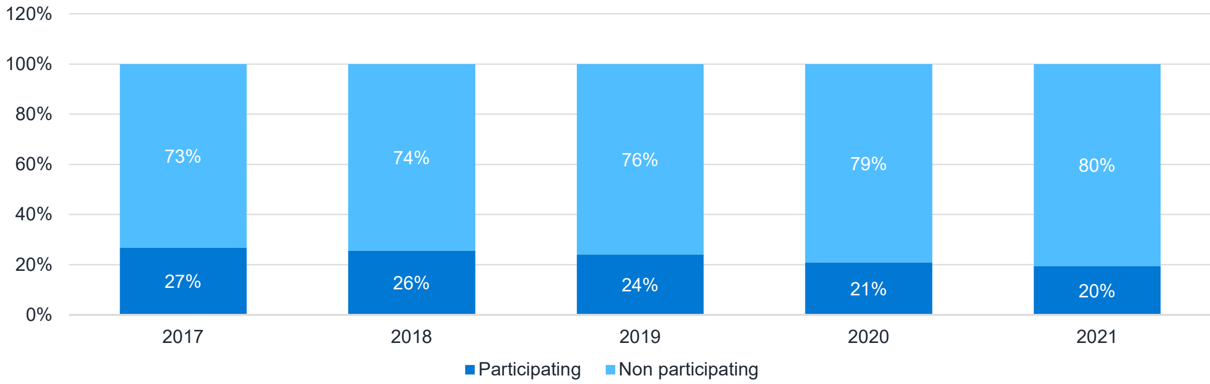
All statistics have been sourced from the Insurance Regulatory Commission of Sri Lanka (IRCSL) and based on our survey and industry knowledge.

GENERAL BACKGROUND

PAR BUSINESS FIRST SOLD	1930s
NUMBER OF PAR OPERATORS	15 life insurers as of mid-2023.
CLOSURE TO NEW BUSINESS	Majority of life insurers have closed par new business or are not actively selling them.
TYPICAL BONUS STYLE	In general, companies follow the UK style of products, with simple endowment products coupled with reversionary bonus. A minimum number of insurers offer terminal bonus as well.
TYPES OF PAR PRODUCTS	Single- and regular-premium whole life products dominate. There are also single- and regular-premium endowment and annuity products offered as well. Single-premium short-term investment products have proved particularly attractive in the market..

PARTICIPATING TOTAL BUSINESS VOLUMES

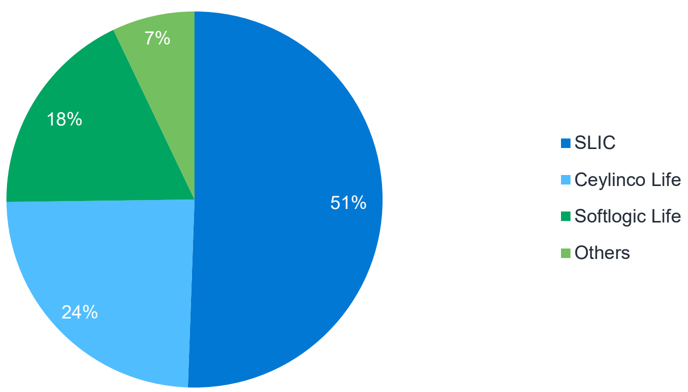
FIGURE 60: SHARE OF TOTAL GROSS WRITTEN PREMIUM



The contribution from participating products has gradually declined over the last few years.

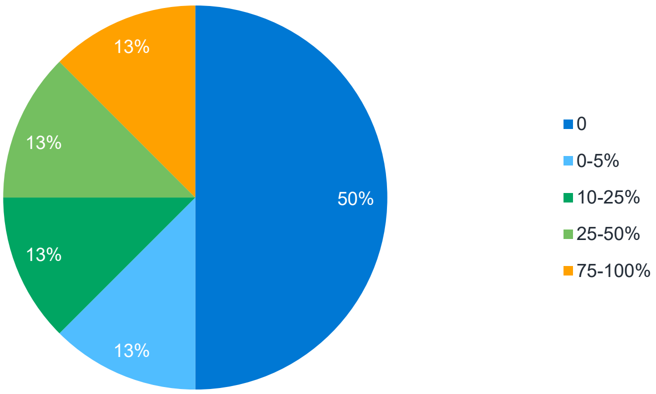
Today, limited players in the market are offering participating products. However, the contribution of par business towards the overall industry's total gross written premium remains significant. In 2021 Sri Lanka Insurance Corporation (SLIC), Ceylinco Life, and Softlogic were the dominant players. Refer to Figure 61, which is based on figures from a 2021 report published by the Sri Lanakan regulator.

FIGURE 61: SPLIT OF TOTAL 2021 PARTICIPATING GROSS WRITTEN PREMIUM BETWEEN DIFFERENT INSURERS



NEW BUSINESS SHARE CONTRIBUTED BY PARTICIPATING PRODUCTS

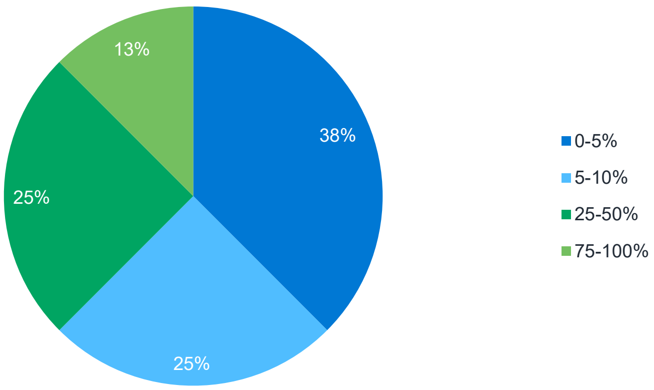
FIGURE 62: PROPORTION OF SURVEY RESPONDENTS WITH EACH RANGE OF PAR NEW BUSINESS VOLUMES AS A PROPORTION OF THEIR COMPANY'S TOTAL NEW BUSINESS, IN APE TERMS



It can be noted that the contribution towards new business is dominantly low at either 0% or lower than 50% of annualised premium equivalent.

IN-FORCE SHARE OF THE PARTICIPATING BUSINESS

FIGURE 63: PROPORTION OF SURVEY RESPONDENENTS WITH EACH RANGE OF IN-FORCE BUSINESS THAT IS PAR, AS A PROPORTION OF THEIR COMPANY'S TOTAL IN-FORCE BUSINESS, BY IN-FORCE RESERVES



The in-force share of the participating business was found to be largely below 25% as per survey results.

It was also interesting to note that approximately 75% of the participating products sold had non-participating riders attached to it as supplementary benefits.

REGULATION

From January 2016 Sri Lanka moved to a gross-premium-valuation based, risk-based capital solvency regime. The regulation is based on comparing the total available capital (TAC) with the risk-based capital required (RCR), comprising of multiple elements such as liability, credit, market, operational, reinsurance, and surrender value to arrive at a capital adequacy ratio (CAR). The minimum level of CAR is specified as 120%, whilst the supervisory intervention level is kept at 160%. However, multiple life insurers have opted to determine an internal capital adequacy ratio with the aim of maintaining a sufficient buffer. In 2021, life insurers maintained an average CAR of 384%, with the lowest/highest CARs being 175% and 880% respectively.

Following the adoption of RBC, insurers have been expected to maintain segregated funds for both participating and non-participating business lines. Hence, movement between funds were restricted and any such transaction was required to be done via approval of the Insurance Regulatory Commission of Sri Lanka (IRCSL).

The transition, from the previously held net premium valuation methodology to the new gross premium valuation methodology resulted in a decrease in reserves held, which was termed as the 'one-off surplus.' The regulator mandated that insurers maintain one-off surplus within the statement of financial position, with the related participating fund one-off surplus to be ring fenced pending further direction by the regulator.

Country report: Thailand

All statistics have been based on our survey and industry knowledge.

GENERAL BACKGROUND

PAR BUSINESS FIRST SOLD	Early 20th century.
NUMBER OF PAR OPERATORS	Only some of the licensed life insurers have par portfolios.
CLOSURE TO NEW BUSINESS	Most par operators are continuing to sell par products.
TYPICAL BONUS STYLE	The vast majority is US-style cash dividend products with regular and terminal dividends.
TYPES OF PAR PRODUCTS	In the form of endowments and whole of life products, with single- and regular-premium endowments being more popular to the Thai population.

NEW BUSINESS VOLUMES

New business volumes: The average share of par new business for those companies participating in our survey was indicated to be in the range of 0% to 10%.

Size of in-force par business: The average share of par in-force business for those companies participating in our survey was indicated to be in the range of 5% to 25%.

REGULATION/GOVERNANCE

In Thailand, the regulation around par fund management, profit sharing rules and illustrations are limited, although companies are required to submit documentation around dividend philosophy, asset allocation, and profit sharing rules for par products during the product approval process.

Fund segregation: Currently no regulations in Thailand that requires fund segregation. Three key types of fund structures have been observed in the market:

1. Sub-fund with notionally separated pool of assets and liabilities in which the strategic asset allocation (SAA) of the sub-fund is consistent with the general fund
2. Sub-fund with physically separated pool of assets and liabilities in which the SAA of the sub-fund could be different from the general fund
3. One general fund with no differentiation of assets backing participating liabilities or other policy liabilities

Shareholder transfers: There is no regulation with regard to the profit sharing between shareholders and policyholders for par policies apart from a requirement that it should be in line with the profit-sharing mechanism that the company filed to the regulator during the product approval stage. It is not mandatory for companies to disclose their profit-sharing ratios.

Brief description of solvency regime: Under the current requirements, policy liabilities are determined as the best estimate of liabilities determined using a gross premium valuation methodology, with the best estimate assumptions incorporating a provision for adverse deviation.

The policy liabilities are determined using government bond yields subject to a smoothing mechanism (i.e., the maximum of current government bond yields, and 51% of the current government bond yield plus 7% of the yield for each of the prior seven quarters) for guaranteed cash flows. Thai regulation allows a maximum of 6% to be added to this discount curve to determine the policy liabilities for non-guaranteed benefits.

A risk margin is implicitly included in the calculation of policies liabilities via the use of the provision for adverse deviation. Time value of financial options and guarantees is not required under the prevailing solvency requirements.

Capital requirements are assessed using a risk-based approach with required capital sufficient to cover the value at risk at a 95% confidence level over a one-year period. All stress parameters for the risk capital calculation are prescribed by the regulator. No provision of the loss-absorbing capacity attributed to the non-guaranteed benefits of par products can be taken into account in the capital requirement calculation.

With-profits committees (or similar): There is no regulatory requirement for specific committees for par funds.

Fund governance policies: There is no regulatory requirement for fund governance policies for par funds.

Illustration requirements: There is no detailed regulatory requirements on policy illustrations, except it is required to disclose the non-guaranteed benefits for three investment return scenarios. The selection of the return scenarios is at the discretion of the companies. The sales illustration needs to be approved by the regulator.

Other required disclosures: There is no regulatory requirement for after-sales disclosures.

Use of asset shares to guide payouts: Based on the survey results, only 25% of the respondents use asset shares to guide payouts.

Thai insurers generally have a less aggressive investment strategy with the majority of assets backing par business being invested in less risky fixed-income assets. In fact, one reason for such investment strategy may be attributed to the lack of loss-absorbency component within the current Thai RBC framework. The majority of the survey respondents do not use any derivatives to manage the asset risk of the par portfolio, with the one respondent that said their company does use derivatives indicating that this is for currency hedging purposes.

Aggregate investment returns: Not required to be disclosed.

Hypothecation of assets: It varies by company, with some companies using a single investment strategy for the whole fund, and others hypothecating assets to back different groups of liabilities.

BONUSES

General approach: Typically, dividend scales are set as part of the product design, with the aim of sticking to them as much as possible. Bonus supportability is regularly reviewed and recommended by the chief actuary. If necessary, there will be cuts to both cash dividends/reversionary bonus and terminal dividends.

Trends in bonus amounts: It is quite common for Thai insurers to adjust the dividend based on experience. In the past 10 years, survey respondents have on average increased and decreased bonus rates 1.75 times and 5.0 times, respectively.

Glossary of terms

90:10 GATE	Restriction on the level of shareholder transfers from par business to a maximum of 10% of surplus distributions in any year
APE	Annual premium equivalent. A weighted premium income measure equal to 100% of annualised regular premiums + 10% of single premiums.
ASSET SHARE	The estimated fair amount attributable to a policy, reflecting the premiums paid, underlying investment return earned, expenses incurred, cost of insurance cover provided, etc.
BER	Best estimate reserve
BRV	Bonus reserve valuation
CASH DIVIDEND	Discretionary cash bonus made to policyholder, usually annually, as part of profit distribution mechanism
CAR	Capital adequacy ratio
CBIRC	China Banking and Insurance Regulatory Commission
CIRC	China Insurance Regulatory Commission
EBR	Equity backing ratio. The proportion of a fund's assets invested in equities (usually includes property and other riskier assets).
FFA	Funds for Future Appropriation
FSR	Fund solvency ratio. Singapore solvency measure, defined as the ratio of financial resources of fund over the total risk requirements of the fund.
GPV	Gross premium valuation
ICS	International Capital Standards
IF	In-force policies
IRCSL	Insurance Regulatory Commission of Sri Lanka
IRP	Independent Review Panel
IRR	Internal Rate of Return
LTA	Long-term adjustment
MA	Matching adjustment
MCL	Minimum condition liability. A prudent calculation of the guaranteed benefits only for participating policies used in Singapore solvency calculations.
PARTICIPATING (PAR)	A policy that participates in the fortunes of an insurance fund. Policyholders are entitled to a share of the profits from the business in the fund, which are distributed through bonuses and/or dividends.
PRE	Policyholders' reasonable expectations
REGULAR BONUS	Addition to basic sum assured, usually added annually, which cannot be taken away once it has been given, also referred to as reversionary bonus
REVERSIONARY BONUS	See 'regular bonus'
RIDER	A provision of an insurance policy that is purchased separately from the basic policy and that provides additional benefits at additional costs
RBC	Risk-based capital
RM	Risk margin

SAA	Strategic asset allocation
SAP	Standards of Actuarial Practice
SAS	Singapore Actuarial Society
SMOOTHING	The process of holding back profits in good years to top-up bonuses in leaner years, but run to be neutral over the long term
SUM ASSURED	Minimum amount of life assurance payable on the assured event (typically death and, for endowment contracts, the maturity of the policy)
TAC	Total Available Capital
TCR	Total Capital Required
TERMINAL BONUS	Additional benefit on policy paid at the time of claim. As they only apply on claims, terminal bonus rates can be increased and decreased to reflect current conditions.
TLAA	Thai Life Assurance Associate
TRADITIONAL PAR	Non-unitised participating policy with profit distribution typically allocated through reversionary bonuses, terminal bonuses, and cash payments
TVOG	Time Value of Options and Guarantees
UNIVERSAL LIFE	Non-participating insurance product where the policyholder has an account value that the insurer credits with interest and deducts charges for the insurance cover provided
VAR	Value at Risk
WITH-PROFITS	Alternative term for participating business, more commonly used in the UK

Appendix: Full list of survey questions and possible responses

QUESTION	CHOICE OF ANSWERS	ANSWER 1	2	3	4	5	6	7	8	9	10	11	12	13
1. Which country does your company operate in? For multinationals, please only answer in relation to the country in which you work.	*Select only one*	China	Hong Kong	India	Indonesia	Japan	Korea	Malaysia	Philippines	Singapore	Sri Lanka	Taiwan	Thailand	Vietnam
2. Approximately what proportion of your company's new business APE do participating policies account for?	*Select only one*	Not currently writing new participating policies	0-5%	5-10%	10-25%	25-50%	50-75%	75-100%						
3. Approximately what proportion of your company's in-force business (by reserves) is participating?	*Select only one*	0-5%	5-10%	10-25%	25-50%	50-75%	75-100%							
4. What has been the effect of the recent increase in interest rates for your company's par business	*Select all that apply (but link the pairs so can't pick both options for each issue)*	Interest rates have not risen significantly in our market	Weakening of capital position as a result of market value losses	Strengthening of capital position as a result of reduction in liability values.	Pressure on bonuses from market value losses	Increased bonus affordability from higher expected returns in the future	Increased sales opportunity from higher expected returns for new par business	Decreased sales opportunity due to higher expected returns for other product types or investment options	Other (please specify)					
5. Does your company use non-participating riders to increase the profitability to shareholders from its par proposition?	*Select only one*	No. We do not offer riders attached to par products.	No. Riders attached to par products are written in par fund, so profits remain with par policyholders.	Yes. We offer range of non-par riders that either the same-as or similar to those offered on our non-par and investment-linked products.	Yes. We offer non-par riders that are specifically designed to attached to specific par products to increase profitability to shareholders, as well as offering general non-par riders.									

QUESTION	CHOICE OF ANSWERS	ANSWER 1	2	3	4	5	6	7	8	9	10	11	12	13
6. What is the outlook for participating business at your company?	*Select only one*	Expect sales to increase in relation to the rest of the business	Expect sales to grow in line with the rest of the business	Expect sales to reduce in relation to the rest of the business										
7. What do you see as the biggest threats to your company's successful participating product offering? Select up to two.	*Select up to two*	Future changes in regulations	Restrictions on sales illustrations	Mis-selling of non-guaranteed benefits	Low interest rates/poor investment returns	Other product offerings e.g., unit-linked	Other (please specify)							
8. What do you think are the biggest challenges for your company in managing its existing par business going forward? Select up to two.	*Select up to two*	Available capital	Managing bonuses/dividends	Policyholders' reasonable expectations (PRE)	New guidelines/regulations	Acquiring new business	Educating the board on par related aspects	Macro-economic environment	Other (please specify)					
9. During COVID-19 (2020-2022) and the volatile economy that accompanied and followed it, what has been the general direction of the dividend/bonus rates for your company?	*Select only one*	Generally the same	Generally increased	Generally decreased										
10. In the last 10 years, how many times has your company increased bonus/dividend rates for any of its par products?	*Single answer. Any positive integer or 0.*													
11. In the last 10 years, how many times has your company decreased bonus/dividend rates for any of its par products?	*Single answer. Any positive integer or 0.*													
12. What are the most important influences on PRE? Select up to two.	*Select up to two*	Policyholder illustrations	The macro-economic environment	Historic bonus/ dividend rates	Competitors	Regulations	Other (please specify)							

QUESTION	CHOICE OF ANSWERS	ANSWER												
		1	2	3	4	5	6	7	8	9	10	11	12	13
13. Does your company use asset shares to manage policyholder payouts and if so do you calculate the asset share on a book-value or market-value basis?	*Yes/No*	Yes - book-value	Yes - market-value	No, we do not use asset shares										
14. Which of the following surpluses does the asset-share calculation allocate to policyholders? Please select all that apply.	*Select multiple (or none)*	Expense overruns	Lapse/surrender profits	Profits from riders or other non-par policies within the par fund	Costs (or gains) from reinsurance	An allowance for guaranteed costs	Smoothing adjustment	Cost of capital charge	Investment return on assets not backing asset shares (e.g., those backing the estate or premiums/ dividends on deposit)	Do not calculate asset shares				
15. At what level of granularity are asset shares considered to adjust payouts?	*Select only one*	Fund level	General product type cohorts (e.g., annuities, single-premium endowments; regular-premium endowments)	Product level	Cohorts that take into account the year of entry as well as product type (or more granular)	Other (please specify)								
16. What metrics does your company consider when reviewing bonus rates	*Select multiple (or none)*	Asset share to Gross Premium Reserve (also called Bonus Reserve Valuation, BRV) (AS: GPV or AS:BRV) ratios	Investment return required to support future bonuses (break-even investment return)	Asset share to surrender value ratios	Projected AS:GPV ratios	Policyholder IRR	Other (please specify)							

QUESTION	CHOICE OF ANSWERS	ANSWER												
		1	2	3	4	5	6	7	8	9	10	11	12	13
17. Approximately what proportion of investments backing participating policies are in equity, property or other higher-risk investments?	*Select only one*	0-5%	5-10%	10-15%	15-20%	20-30%	30-40%	40-50%	50-75%	75-100%				
18. Does your company make use of derivatives for the par business?	*Select multiple (or none)*	No derivatives used for par business	Derivatives used for investment efficiency (e.g., synthetics)	Derivatives used for currency hedging	Derivatives used for interest rate risk hedging	Derivatives used for credit spread risk hedging	Derivatives used for equity risk hedging	Other (please specify)						
19. Does your company make use of alternative asset classes for the par business?	*Select multiple (or none)*	No alternative assets used for par business	Private equity/ venture capital	Private debt	Infrastructure debt	Asset-backed securities	Hedge funds	Others (please specify)						
20. Are participating policies written into a segregated fund?	*Select only one*	Participating policies are written into the general policyholder fund, with no notional separation from other lines	Participating policies are written into the general policyholder fund, but assets backing them are notionally separated from other lines	Participating policies are written into the general policyholder fund, but assets backing them are physically separated from other lines	Participating policies are written into a segregated participating fund									
21. If your business's par fund has an estate (surplus assets within the par fund that is not used to back asset shares) how is it currently planned to be used in the near future?	*Select only one*	No par fund estate	Used to provide capital support to par fund	Used to support smoothing of bonuses	Plan is in place to distribute (at least some of it) to policyholders to enhance benefits	Plans in place for shareholder to remove from fund and use for purpose other than enhancing policyholder benefits								

QUESTION	CHOICE OF ANSWERS	ANSWER 1	2	3	4	5	6	7	8	9	10	11	12	13
22. For IFRS17 reporting, have you elected to report your participating business based on?	*Select only one*	General model	VFA model											
23. If you have not chosen to report under the VFA model because of not being able to fulfil all criteria to be eligible, which key criteria cannot be fulfilled?	*Select multiple (or none)*	Have contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items	To pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items	Substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items	Other reason, please specify									
24. If you are comfortable sharing the name of your company, please enter it here. This is optional but will help improve the quality of our analysis. This information will not be shared with any other parties and will not be published as part of the results.	*Text box*													

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