MILLIMAN RESEARCH REPORT

Participating business in Asia

2016 EDITION

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Introduction

Participating (par) insurance products represent a significant proportion of the life insurance business in many Asian markets. While the widespread popularity points to some commonality across the region, each country has its own variants and factors that have contributed to the growth of par business.

This report provides a comprehensive overview of par business from across the region, looked at through three lenses:

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 major 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 and anecdotal information gained from our consultants working across the region

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

Given that substantial work on this report was done in 2016, we understand that market conditions (e.g., yields) would have changed since then. Hence, the market conditions referred to in this report do not reflect current market conditions as of the published date.

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

Executive Summary

For par business, investment performance is right at the top of the list of concerns for providers—both from the perspective of providing returns that can help to manage the bonus expectations of policyholders, but also to help generate new sales through attractive illustrated returns. With par products needing to 'stack up' well against other retail investment products, the investment management challenge is complex. Insurers often face the challenge of striking a balance between the ongoing security of the fund (which can come under greater pressure if more aggressive investment policies are adopted) and maintaining bonus rates at current levels. The unattractive decision to cut bonus rates can be challenging in markets where there is little history of bonus rate revisions and the reaction of customers and distributors is harder to predict.

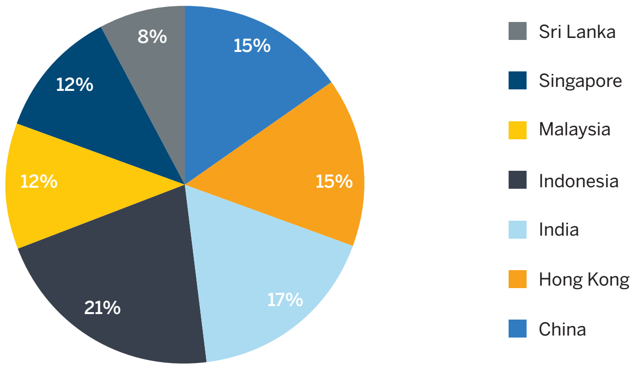
Many of the insurers we surveyed have internal governance policies, which are often accompanied by some reference to, and definition of, PRE. Based on our survey, insurers almost universally believe that PRE is driven by illustrations or bonus declarations. As a result, companies will be looking for ways to enhance the delivery of their internal views of how their par fund works to their customers. This will better ensure that the risk mitigations from the internal governance policy are operative. The major tools to support this are effective point-of-sale illustrations and regular policyholder communication materials.

The majority of companies indicated they have a par policyholder advocate in place—given the significant financial literacy required to truly understand how a par plan works, these representatives help to provide a consumer perspective in the management of par funds. Either as a result of regulations or professional guidance, most companies indicated the policyholder advocate is the AA of the insurer. Given the AA's responsibilities to the solvency of the business as a whole, and commercial objectives of the company, it can be a challenge to balance the needs of all stakeholders. The delegation of at least some of these roles may help increase the ability of the AA to be objective. Arrangements such as the with-profits committee in India are at the forefront of developments in this area.

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 surveyed seven key par markets in Asia. The following section provides highlights and key trends from the survey results.

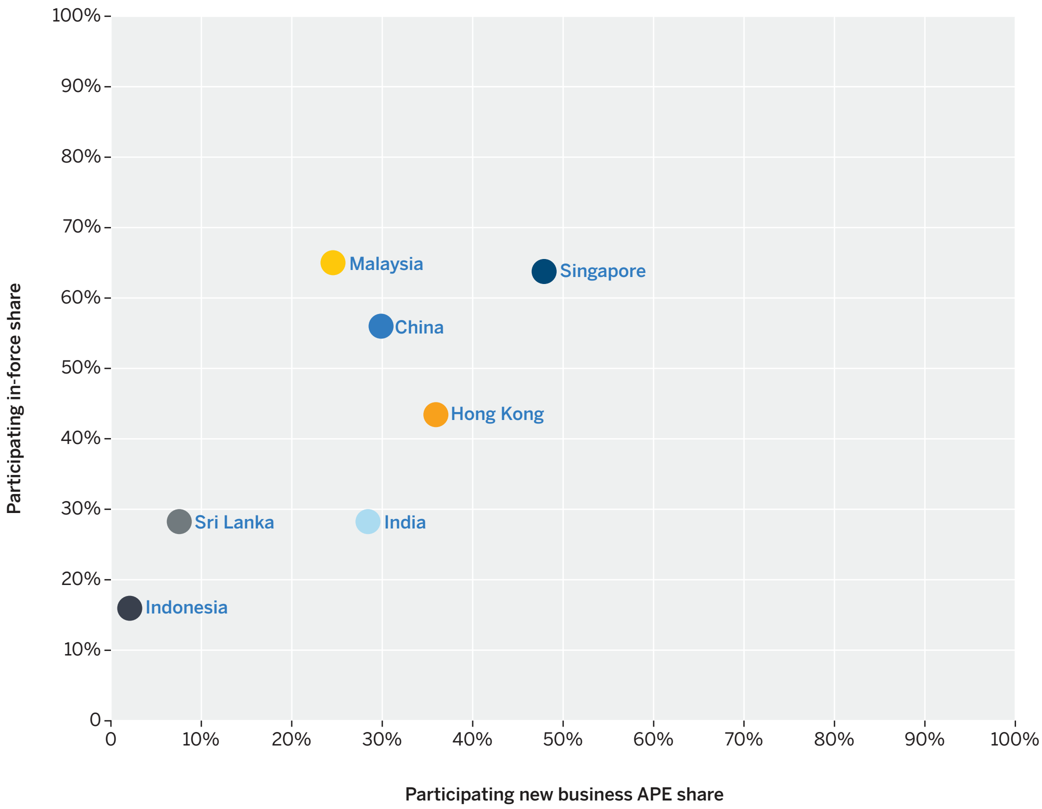
FIGURE 1: SURVEY REPRESENTATION BY COUNTRY



SHARE OF PAR BUSINESS BY NEW BUSINESS APE AND IF

The average estimated share of par new business annualised premium equivalent (APE) and in-force (IF) business from our respondents is shown in Figure 2. Whilst this does not give the share of the par business for the market as a whole, it does give an indication of the weight of par business in markets where statistics are not readily available, and also illustrates the amount of par business that the companies in our survey have in-force and are writing each year.

FIGURE 2: AVERAGE PAR SHARE FROM SURVEY PARTICIPANTS

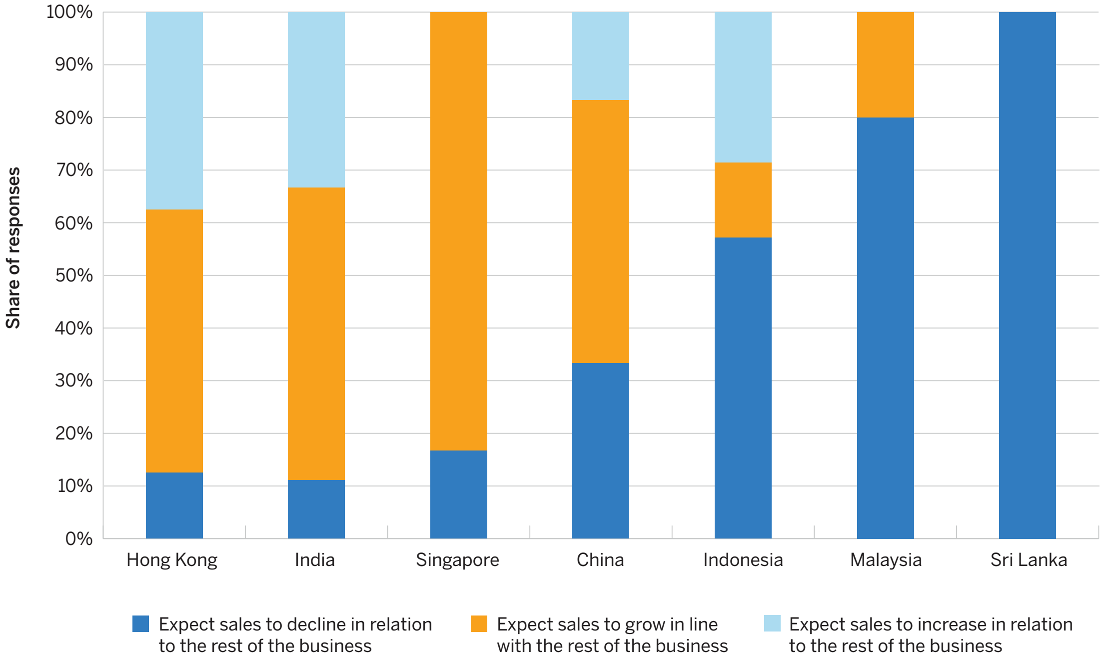


For those countries where respondents' shares of par new business were lower than those of par in-force business, it may signal a decline for par business, and this broadly agrees with our respondents' expectations for par business going forward, as outlined in the next section.

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 companies.

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



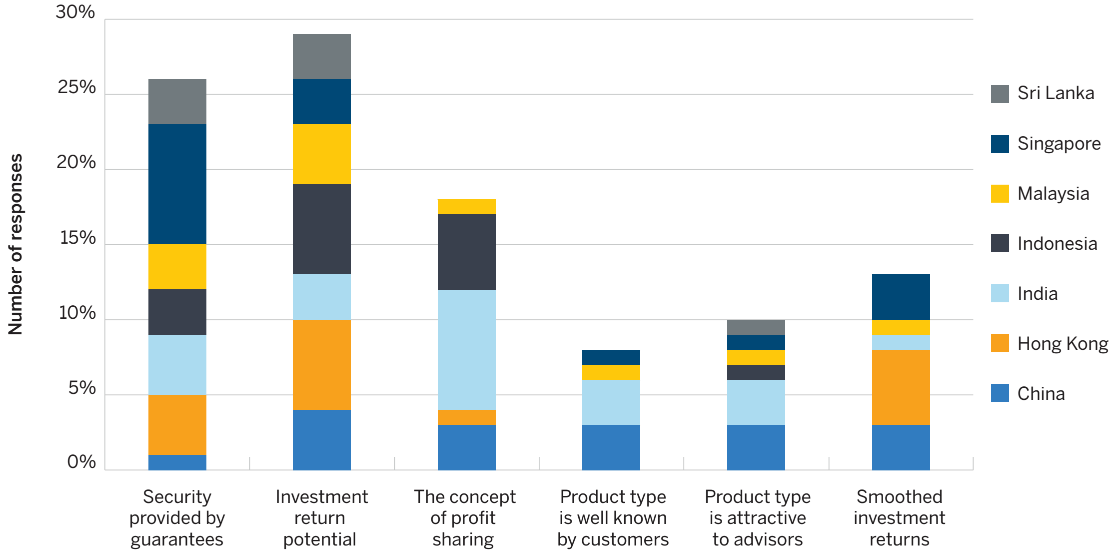
From our survey results, while many respondents in India and Hong Kong see a positive outlook for par business (most likely driven by the more challenging current regulatory environment for unit-linked business), many respondents from Malaysia and Sri Lanka expect par business to reduce. The improvement that some survey participants expect in Indonesia comes from a very low in-force base.

WHAT MAKES PAR ATTRACTIVE TO CUSTOMERS?

We observe a diverse range of par product structures across the region, whether cash or reversionary bonuses, whole life or money-back plans, and also a variety of ring-fencing and profit 'gating.' However, the basic par principles of sharing the experience of the fund (driven mostly by investment experience) and taking advantage of the security of the guarantees appear universal in the markets we surveyed.

The chart in Figure 4 indicates our survey results when insurers are asked about the features of par business that make it successful.

FIGURE 4: 'WHAT ARE THE MAIN FEATURES OF PARTICIPATING PRODUCTS THAT YOU BELIEVE MAKE THEM POPULAR WITH CUSTOMERS?'

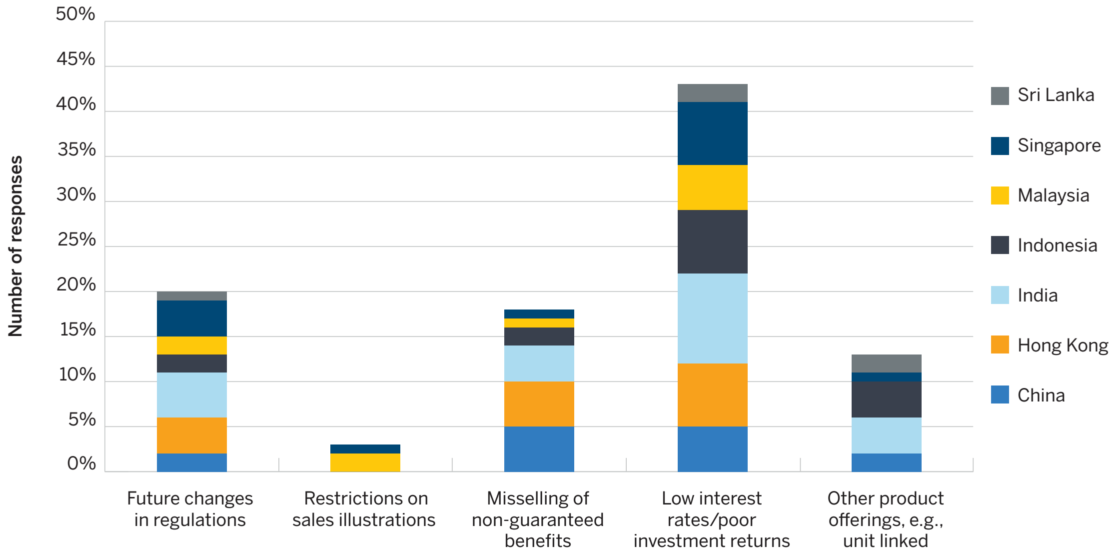


While we can contrast the perceived preference for security in Singapore with the desire for investment returns in Hong Kong, the fact remains that insurers expect customers to primarily value the savings characteristics of par products.

THREATS

Clearly the preference for both security and investment upside creates a potential challenge for insurers that need to deliver superior returns while protecting not just their own funds, but also the overall investment of the policyholder. Across the region, the depressed yields on government bonds are not easing this challenge, with the continuing low interest rate environment in many jurisdictions and general worries over investment returns high on the list of concerns that insurers perceive. The chart in Figure 5 shows our survey results when insurers are asked for their two biggest threats for par business in their companies.

FIGURE 5: 'WHAT DO YOU SEE AS THE BIGGEST THREATS TO YOUR COMPANY'S SUCCESSFUL PAR PRODUCT OFFERING?'

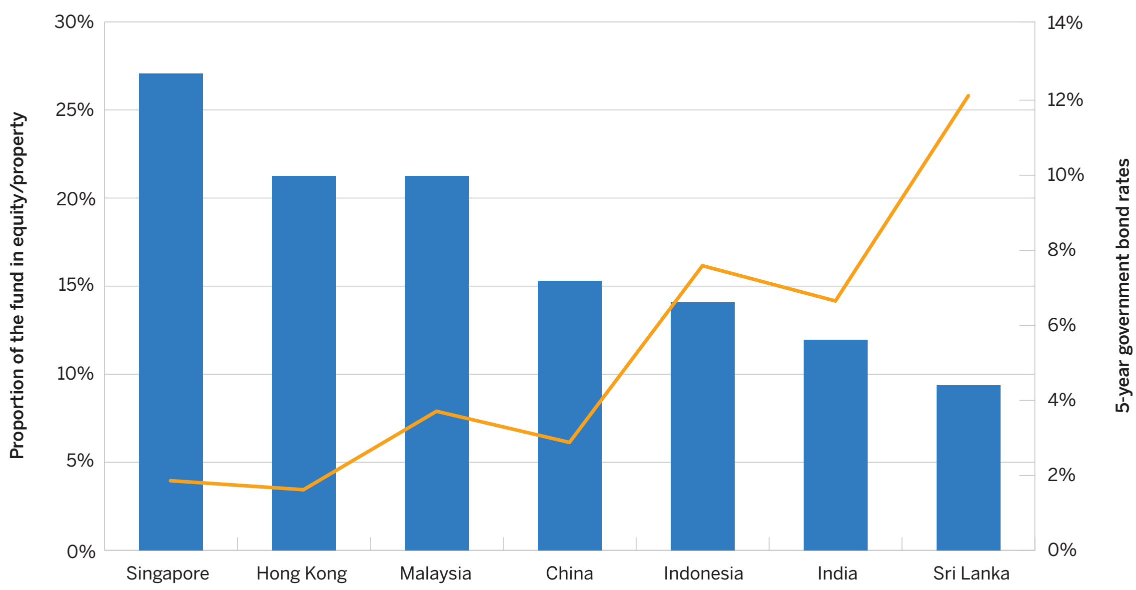


While mis-selling, competition, and regulations were cited as challenges, the stand-out response was that low interest rates and investment returns appear to be a universal threat to our respondents' businesses across the region.

As a result of the challenge of low interest rates on government bonds, some insurers have turned to other asset classes. While many factors will drive investment strategy, there is a tendency for insurers in lower interest rate markets to move more of the par fund into riskier classes to deliver the necessary investment performance. As interest rates continue to fall in countries like India and Indonesia, the heavy reliance on government bonds may come under pressure.

The chart in Figure 6 shows the distribution of responses insurers gave when asked what proportion of investments backing par policies are in equity, property, or other higher-risk investments. The five-year government bond yield in each country at 31 December 2016 is shown to demonstrate the correlation between equity backing ratios (EBRs) and interest rates.

FIGURE 6: 'APPROXIMATELY WHAT PROPORTION OF INVESTMENTS BACKING PAR POLICIES ARE IN EQUITY, PROPERTY, OR OTHER HIGHER-RISK INVESTMENTS?'

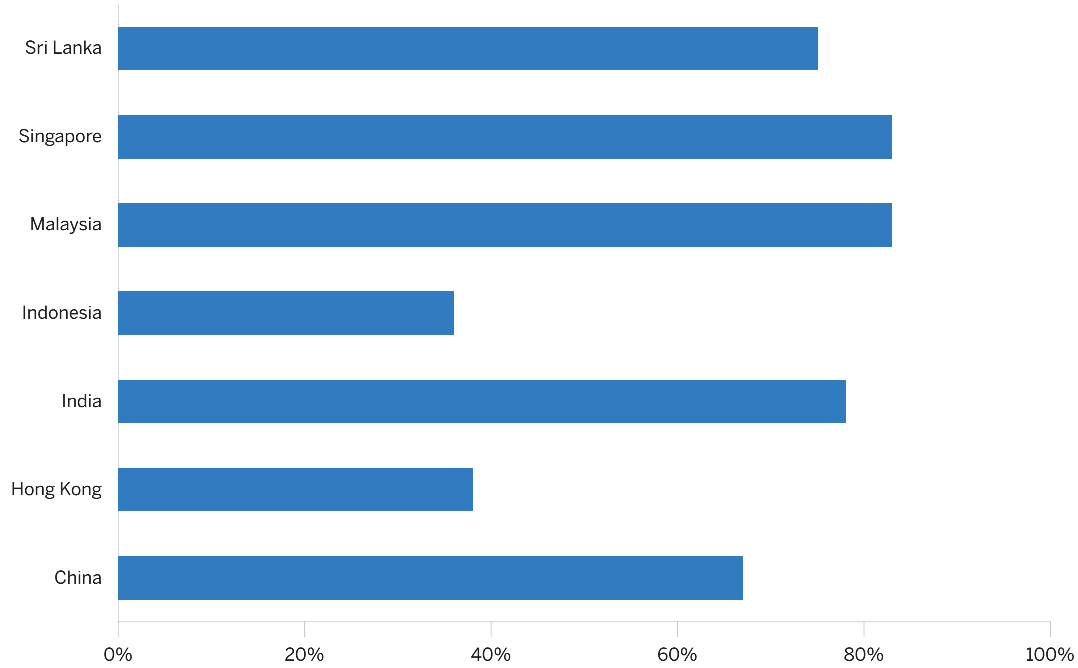


This chart contrasts the higher EBRs in Singapore and Hong Kong with the generally safer asset holdings of India and Sri Lanka. If we observe that EBRs are highest where interest rates are lowest, it may be interesting to see how EBRs change if interest rates fall in India and Sri Lanka.

GOVERNANCE: POLICYHOLDERS' REASONABLE EXPECTATIONS

Ideally, much of the risk from reduced investment returns will impact policyholders' propensities to buy new par polices only, and pose less of a challenge for existing business. Well priced and adequately reserved par business should theoretically be well placed to withstand reduced investment performance, as insurers utilise their discretion to manage (or cut) bonus rates to reflect the underlying asset values. However, the freedom with which this discretion can be exercised may depend upon how companies have communicated to their policyholders.

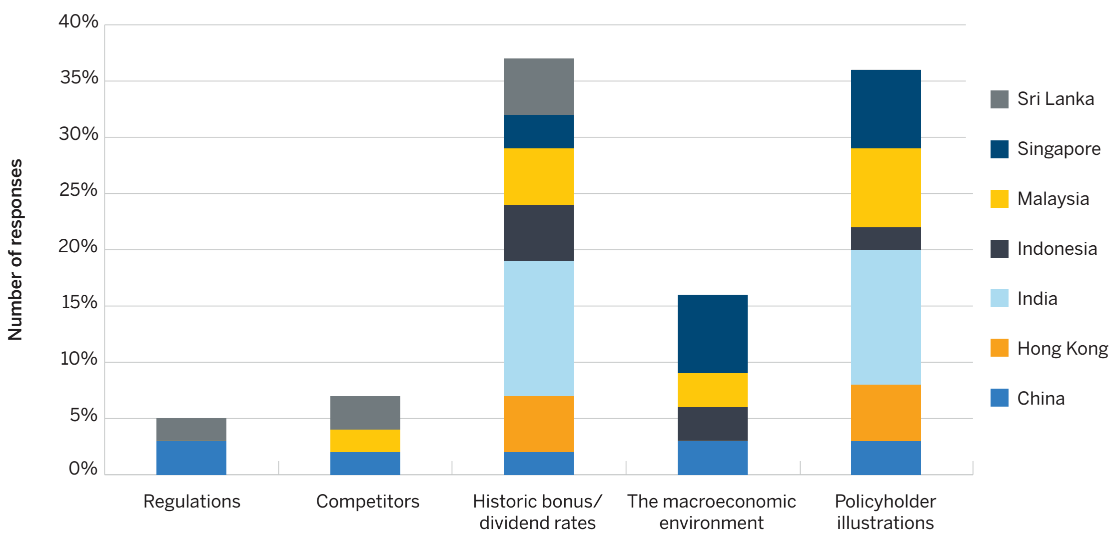
FIGURE 7: RESPONDENTS WHOSE COMPANIES HAVE EXPRESSIONS OF WHAT CONSTITUTES PRE



While "Policyholders' Reasonable Expectations" (PRE) may be hard to define, from our survey as shown in Figure 7, we see that the majority of insurers have taken the first step of creating some expression of what constitutes PRE.

According to our survey results, shown in the chart in Figure 8, when asked which are the two most important influences on PRE, there is an overwhelming agreement by insurers across the region that policyholders' reasonable expectations are largely dominated by bonus rates, both illustrated and those declared by the insurer in the past.

FIGURE 8: 'WHAT ARE THE MOST IMPORTANT INFLUENCES ON PRE?'



We observe that in general:

- The survey results show that historical and illustrated bonus rates are likely to be the two key determinants of PRE.
- In most markets, the range of scenarios illustrated at the point of sale are limited, and historical bonuses have remained largely stable.

Therefore, we may conclude that a significant proportion of policyholders will not expect large fluctuations in bonus rates in challenging investment conditions. If policyholders are not well aware of the impact of the macroeconomic environment on their policies, the application of the necessary discretion may be tested in market downturns.

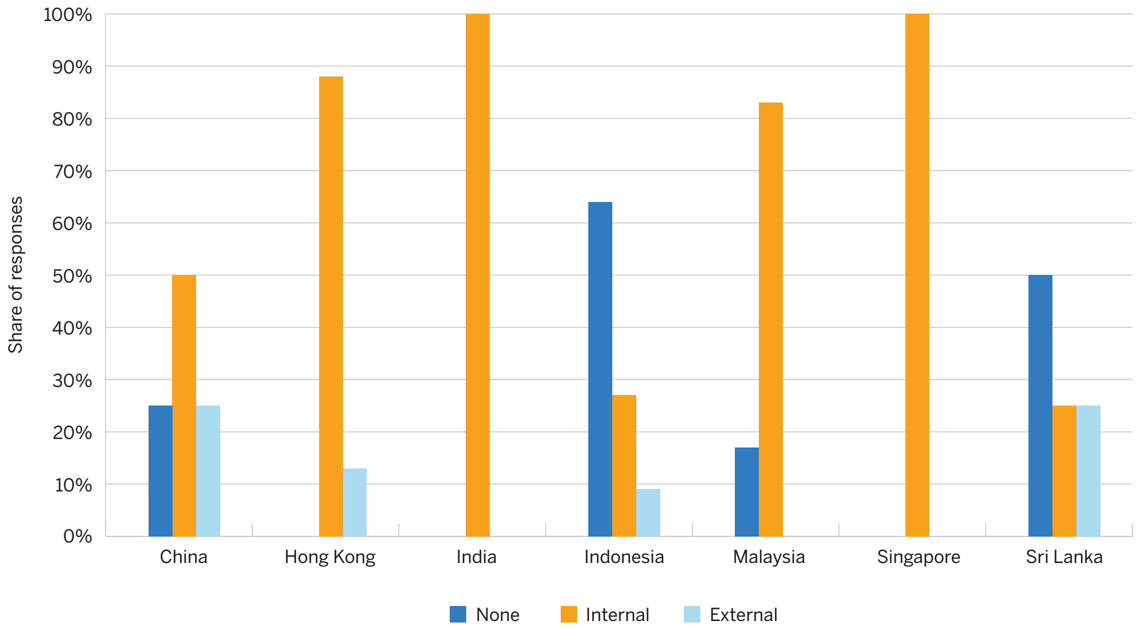
Based on the responses to our survey, insurers in Singapore appear to believe that PRE is mostly determined by the macroeconomic environment and illustrations, rather than historical bonuses—an indication that policyholders may be better 'prepared' for the impact of any market downturn on their policies.

GOVERNANCE: PAR BUSINESS MANAGEMENT FRAMEWORKS AND GOVERNANCE POLICIES

Internal governance policies provide structure to the application of discretion and are intended to protect insurers from having that discretion challenged by regulators and policyholders alike. In general, decision making will be more transparent and consistent once the philosophy of a particular fund has been defined and rooted in the functions of an insurer.

Figure 9 shows the proportion of respondents in each country that have a par business management framework.

FIGURE 9: 'DOES YOUR COMPANY HAVE A POLICY FOR HOW YOUR PAR BUSINESS IS MANAGED (EITHER INTERNAL OR EXTERNAL)?'



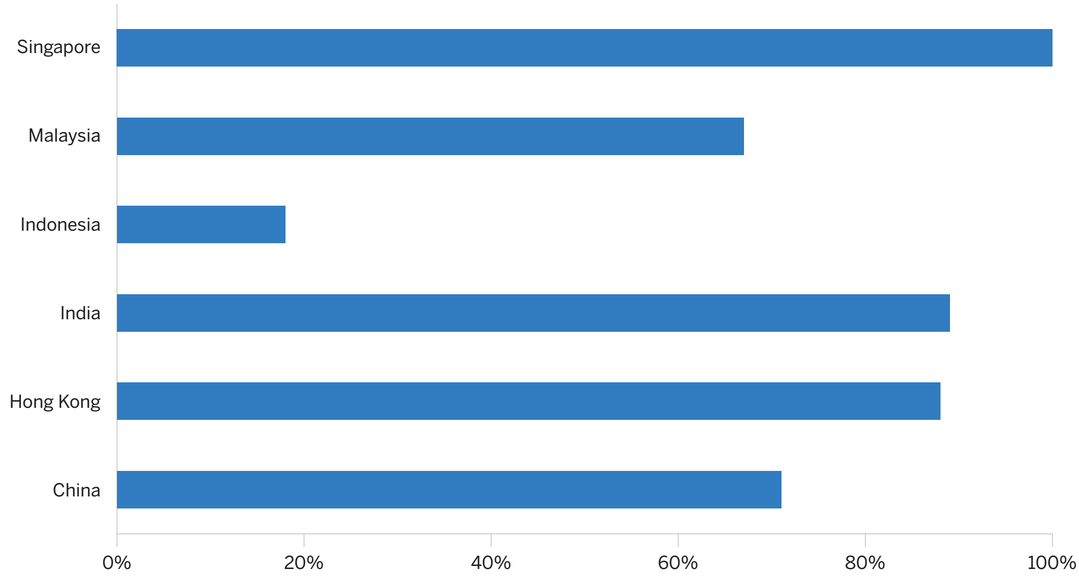
While governance policies are common across the region, as given by the chart in Figure 9, the lack of external disclosure may limit their efficacies in managing PRE.

GOVERNANCE: POLICYHOLDER ADVOCACY

Another tool used by insurers to demonstrate that they are considering both policyholders and shareholders when making decisions in the management of their par funds is identifying staff or other groups to advocate on behalf of par policyholders.

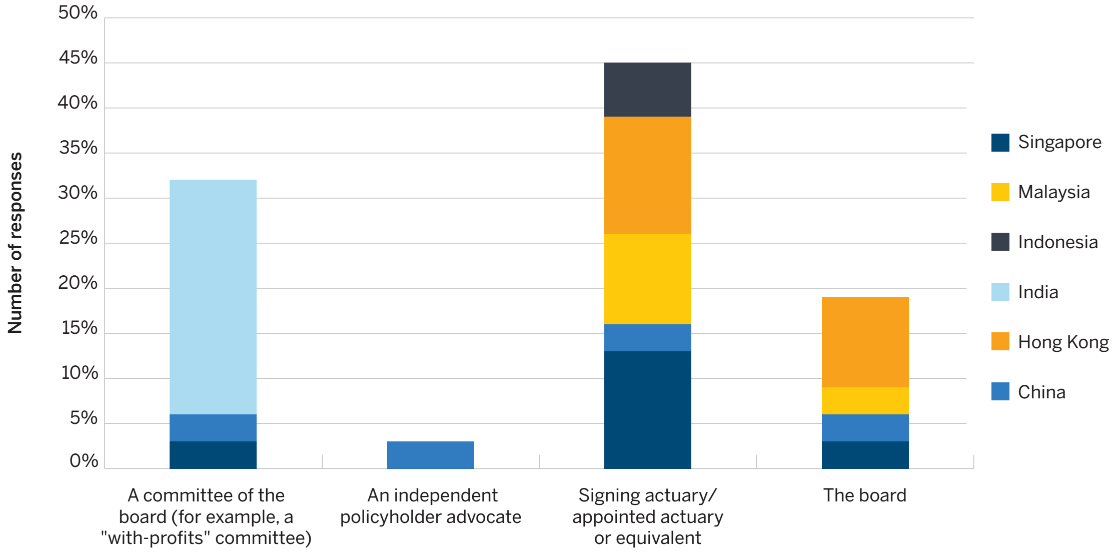
The table in Figure 10 shows our survey results when insurers were asked if they have an individual or group that has responsibility to advocate for par policyholders' interests.

FIGURE 10: RESPONDENTS THAT HAVE AN INDIVIDUAL/GROUP WITH RESPONSIBILITY TO ADVOCATE FOR PAR POLICYHOLDERS' INTERESTS



From the results in Figure 10, we see a large majority of survey respondents indicating that there is a policyholder advocate in place. Of these survey respondents that have a policyholder advocate, we have also asked who it is that takes on this role. The chart in Figure 11 indicates the results.

FIGURE 11: 'WHO IS THE PAR POLICYHOLDER ADVOCATE?'



While many insurers have an identified policyholder advocate, the results in Figure 11 show that this role is largely assigned to the signing or appointed actuary (AA), or even simply the Board itself. The country that diverts from this trend is India, where regulations specifically require the formation of a with-profits committee. Insurers may need to consider the extent to which groups that have other responsibilities to the insurer can effectively advocate for policyholders and address potential conflicts of interest.

Country overview

This section provides an overview of the key 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, which outline relevant statistics and provide more in-depth analyses.

SINGAPORE

Par business has been sold in Singapore for as long as there has been a life insurance market in the country, and it continues to be a popular product with the mass market, especially through the bancassurance channel. Sales of par business made up over half of all new business sales by APE in 2015, which has been a consistent pattern over the last eight years. Despite the underlying complexities behind the management of par business, and the level of discretion involved, it seems that it is a product that customers and advisors alike are comfortable with. As a result of this popularity there has even been a recent new entrant to the par market in Singapore, with Etiqa offering par products since it commenced business in 2014.

Various types of par products are offered in Singapore, covering savings, protection, and legacy planning needs. The majority of par products currently sold are endowments (approximately three-quarters of par sales), with whole life plans making up most of the remainder. Whilst both single and regular premium policies are sold, typically there is more regular premium business and this trend has been increasing in recent years. In 2015, 88% of par policies sold were regular premium policies (by number of policies). The regular premium policies can, however, include limited premium payment terms that are shorter than the entire policy term.

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%-70%) in bonds, with equities making up approximately 20% to 40%. Since 2011 we have seen a modest increase in equity exposure, from 24% to 29% at an aggregate industry level, which is possibly a reflection of the low yields available on bonds in the current market conditions. Low interest rates and poor investment returns are a concern for industry practitioners, as we have seen from our survey results. Whilst increasing equity content might be able to increase potential returns, it also increases risk capital requirements. Statistics from regulatory returns show that the average industry-wide fund solvency ratios (FSR) for par funds in Singapore has dropped from 251% at the end of 2012 to 210% at the end of 2015.

The recent negative trend in par fund FSR is not purely attributable to increased equity exposure, however. Bonus rates in Singapore are typically set with reference to asset shares, but often the bonus management is quite static, meaning that bonuses will only be adjusted if the expected cost of future benefits relative to asset shares falls outside of certain limits. Bonus cuts do occur, but for some companies there is pressure to minimise them, which may have led to bonus levels being maintained above what can really be afforded in the long term, based on recent investment returns, and thereby having an adverse effect on FSR levels. Increases in interest rates and/or investment returns would, however, be expected to have a positive impact on the par fund FSR.

Singapore is currently in the process of updating its solvency regime, with the third consultation and second quantitative impact study (QIS2) for the proposed new regime (RBC2) having been released and conducted in 2016. The previous consultation and quantitative impact study (QIS1) was particularly onerous for par business, which was notably due to the proposed increases to asset risk charges. QIS2 has, however, shown some relaxation of the earlier proposals, particularly through diversification allowances in the asset risk charges, and making the eligibility criteria for the new 'matching adjustment' easier to meet.

Previously, under RBC1, companies were allowed to increase the financial resources by the value of the allowance for provision for non-guaranteed benefits (APNGB), subject to the limits imposed. The value of the APNGB that can be recognised as part of the financial resources and is subject to the limits of the lower of:

(a) 50% of the aggregate present value of non-guaranteed benefits and the provision for adverse deviation (PAD)

(b) Policy assets less minimum condition liability (PA – MCL)

The RBC2 proposals for QIS2 include changing the 50% factor that applies under (a) above to 100%. This could provide significant benefit to companies that recognise (a) above to increase the financial resources, but there may be no benefit for others that recognise (b) above, if the minimum condition liability (MCL) already bites. Our analysis of RBC forms from December 2015 suggests that changing this 50% factor would give the former—the companies that recognise (a) above as part of the financial resources—an increase in par fund financial resources of over 20%, whereas for the latter, there would be no benefit at all (as the policy assets less MCL threshold is already biting). This could lead to further widening of the par FSR among different companies.

INDIA

Par business continues to be a significant part of the strategies of most companies in India, with around 65% of new business APE in financial year 2016 written in participating form. While this is mainly due to the behemoth Life Insurance Corporation putting par at the very centre of its business, par continues to take a sizeable share of the private sector as well.

Par business is written on a 90:10 profit-sharing arrangement between policyholders and shareholders, with the policyholder return provided almost exclusively through a mix of reversionary 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 or whole life variants also popular. Par is favoured by agency sales forces rather than bank distributors. Typically equity participation is low, meaning that returns are driven mostly by the performance of the government investment markets (and somewhat by corporate bonds).

In the last five years, par business has reclaimed its once dominant position in the market, benefitting from the demise of unit-linked products which suffered from caps on charges imposed in 2010. However, recent industry consultation from the regulator focussed back on par business. A 2015 Finance Ministry paper suggested that a more uniform structure across all types of retail investment is desirable. Such a move towards increased liquidity options for customers and lower implicit charges would certainly hit profitability.

Recently introduced regulation which limits expenses that can be debited from the par fund are set to prove challenging to meet for smaller players. While insurers may be compliant in 2016, the limits taper down over three years. The final effects of this regulation may be yet to emerge.

The regulatory refocus on par business may be cause for insurers to look at improved governance of their existing par business, and cheaper acquisition of new policyholders.

Regulation in India specifically requires the formation of a 'with-profits committee.' This was introduced in 2013 to ratify the calculation of asset shares, which insurers are encouraged to use when setting bonus rates. However, the strength of the mandate of this committee and its efficacy varies across the industry. Setting bonus rates and surrender values in line with illustrations or other methods is still common, as opposed to a full asset share based approach.

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.

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.

With the introduction of the Risk-Based Capital Framework in 2009, the industry has observed a decrease in the sales of par business as companies focus their new business strategies more towards the less capital-intensive unit-linked business.

Many companies are now facing new challenges in managing their par funds, particularly with reducing levels of new business and increasing levels of guarantees 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.

The regulatory body recently introduced a new guideline in relation to par business, 'Management of Participating Life Business' (MPB), which became effective on 1 July 2016. It introduced the requirement for companies to have an internal governance policy for the par fund, which has to be independently reviewed every three years. The salient features of the new guidelines include:

- **Detailed requirements for the management of the par life business.** This includes the requirements in relation to the management of PRE, bonus supportability study, allocation of expenses to the par fund, the management of the estate, and considerations in relation to acquisition of and closure to new business, all of which needs to be addressed in the internal governance policy developed by companies with par business.
- **Requirements for the determination of benefit payouts.** There is a requirement for benefit payouts on death and maturity to be 100% for the post-2005 block subject to the guaranteed benefits, and for the pre-2005 block to be between 90% and 110% of asset shares at the cohort level. No cross-subsidy is allowed among cohorts. This represents a significant change, as companies typically managed the pre-2005 block at a fund level, with cross-subsidies among products.
- **Requirements for bonus revisions.** There are specific governance requirements that must be satisfied during bonus revisions, which include the communications required with various stakeholders.
- **Communications to policyholders.** There are new transparency and disclosure requirements on marketing materials, sales illustrations, and annual bonus statements.

As a result of the new guidelines, companies are focusing on developing an improved governance of their existing par business, whilst managing any potential solvency issues.

HONG KONG

Par business has historically represented a significant proportion of the life insurance business in Hong Kong, accounting for about 50% of both new business and in-force premium income in the past five years. It is expected that par business will continue to be one of the biggest sources of premium income for life insurers in Hong Kong. After the global financial crisis (GFC), par products have seen a general shift from offering high guaranteed returns and high annual dividends or bonuses to lower guaranteed returns and high terminal bonuses.

There was no specific legislation governing the operation of par business under the Hong Kong regulatory framework before 2015. Policyholders' dividends (and bonuses) were granted at the discretion of the board of directors of each company, companies were not obliged to follow any particular rules when determining the discretionary benefits payable to policyholders, and there was no requirement to maintain par policies within a segregated fund. However, Guidance Note 16 (GN16), which was designed based on the concepts of fair treatment of customers and PRE, was introduced by the Office of the Commissioner of Insurance (OCI) on 30 July 2015. The key potential implications of GN16 are:

- Insurers are required to have a corporate policy in place, which sets out the principles and practices on the management of its par business, including the detailed methodology of the allocation of surplus or profits of the participating pool.
- Companies are required to publicly disclose 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 for the previous five calendar years.
- The Board and the AA are required to ensure that there is a fair chance of policyholders achieving the non-guaranteed returns.
- There are ongoing policyholder communication requirements for companies to re-illustrate future benefits each year, taking into account dividend changes.
- There are transparency and disclosure requirements on marketing materials, sales illustrations, and annual bonus statements.

Following the introduction of GN16, companies have generally invested more actuarial resources to ensure compliance with these new regulations. One area of focus has been to refine dividend policies, and to provide more details around the overall philosophy used in setting policyholder dividends, including but not limited to:

- The approach and rules in surplus sharing
- Underlying investment strategy, as well as the ongoing strategic asset allocation
- Maintenance of fairness among different products and generations
- How the assets are held and managed

Companies started publishing fulfilment ratios during 2016. Given falling interest rates and some relatively aggressive approaches to illustrations, these ratios have been quite low for many companies. Following regulatory pressure, the more optimistic par policy illustration rates used have been reduced to some degree in recent months. Companies are also focusing on preparing documents to re-illustrate future benefits for in-force par policyholders.

The changes brought by GN16 are expected to more closely align Hong Kong with the current practices of markets with established segregated par funds such as the UK, Singapore, and Malaysia, and bring a positive impact to the industry.

CHINA

Par business was first introduced in China in the year 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. Chinese insurers faced huge negative interest spreads at that time. The China Insurance Regulatory Commission (CIRC) issued an urgent notice to cap pricing interest rates at 2.5% on 10 June 1999, 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.

Par business is written on a 70:30 profit-sharing arrangement, with the policyholder return provided almost exclusively through cash bonus. To date, the annual cash dividend approach still remains the most common method for surplus distribution in China. Products are most often written in the form of endowments. Whole life variants are also popular.

In August 2013, the restrictions on pricing interest rates were lifted for nonpar products, and given the recovery in interest rates since 2000, this resulted in significant premium reductions. A significant increase in the sales of nonpar products at the expense of par products then followed. However, since September 2015, pricing restrictions (e.g., 2.5% pricing interest rate ceiling) on par business have also ended, with an expectation of a recovery in par business.

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.

As a result of regulatory dynamics and market environment, par business has a great chance to reclaim its once dominant position in the market.

INDONESIA

Indonesia's only mutual life insurer, Bumiputera 1912, has been selling par business for over a hundred years. The sale of par products by proprietary companies has, however, been less prevalent and par is not currently a common product proposition.

As with some of the other markets in Asia, there are no publicly released statistics which specifically split out par versus nonpar products. However, par business has been sold by both multinational and domestic companies with varying degrees of popularity. In general, apart from 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 style products (additions to sum assured) as well as cash dividend style products. Terminal bonuses are less common.

SRI LANKA

Par business in Sri Lanka is the focus area of only a few players, the largest being Ceylinco, selling mostly endowment and whole life products. The major competition for par business comes from universal-life type products, which are sold by many players. Par products are commonly sold with riders that cover a number of accident and critical illness benefits.

Reversionary bonus scales are typically set with reference to the pricing basis, and adjustments are made if the pricing basis is not supportable, given the experience of the fund. The use of asset shares is neither mandated nor widespread.

While there is a 90:10 gate on profits arising from par business, all (other than unit-linked) business is usually written into a single unsegregated insurance fund. Companies adopt an approach to notionally segregate assets attributable to par business.

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. Japanese insurance business law and its related regulation forbid mutual companies to take more than 20% of nonpar contracts by premium.

Stock life insurers in Japan have no such limit and tend to sell nonpar contracts, but provide par contracts for long-term savings, such as endowment, whole life, and annuities.

There are generally two types of par contracts:

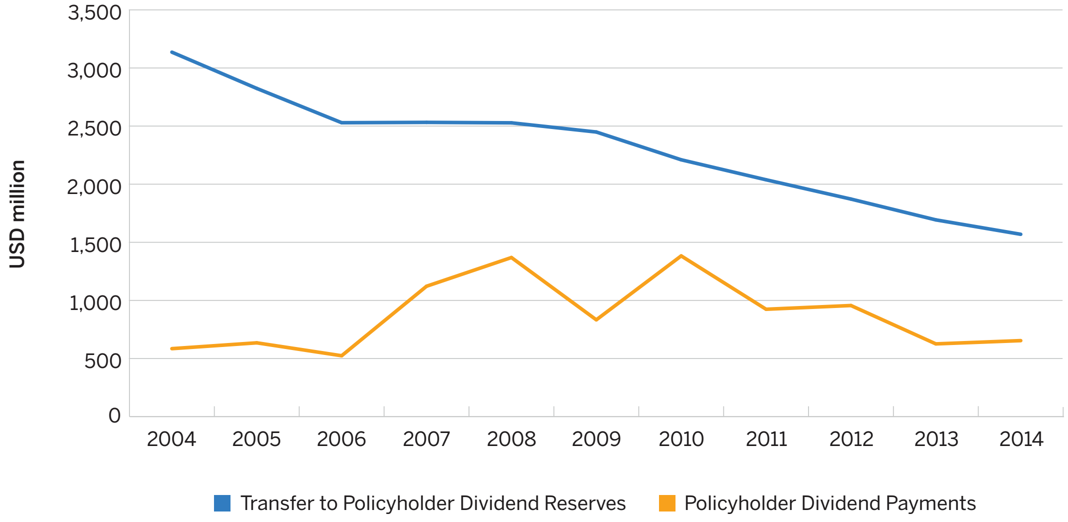
1. **'Traditional,'** which pays dividends based on a three-factor formula reflecting gains on mortality, interest, and expenses. These gains are recognised as the differences between the premium assumptions and experience, and are distributed based on the total surplus in a fiscal year. Annual dividend distribution is common for these contracts, but there are companies which distribute dividends every three years.
2. **'Semi-par,'** which pays dividends based on gains from investments only. Usually, the gains are recognised as the difference between assumed interest rates and actual 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.

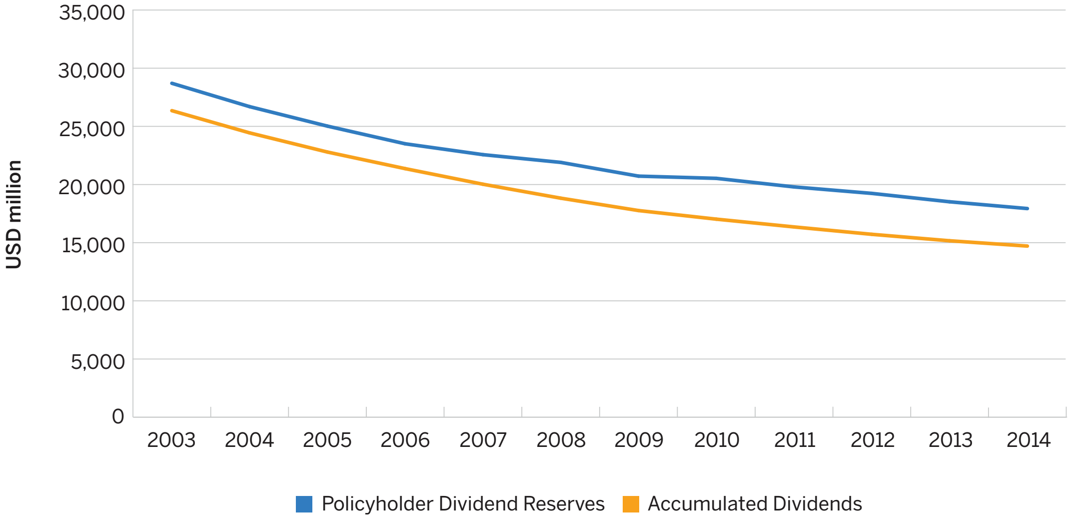
The graph in Figure 12 indicates the amounts of the Transfer to Policyholder Dividend Reserves and Policy Holder Dividend Payments (Individual Insurance and Annuity) of four large life insurers (Nippon Life, Daiichi Life, Meiji Yasuda Life and Sumitomo Life) from fiscal year (FY) 2004 to FY 2014.

FIGURE 12: POLICYHOLDER RESERVES AND DIVIDEND PAYMENTS



The graph in Figure 13 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 2014. Accumulated dividends represent a liability, primarily for dividends left on deposit at companies.

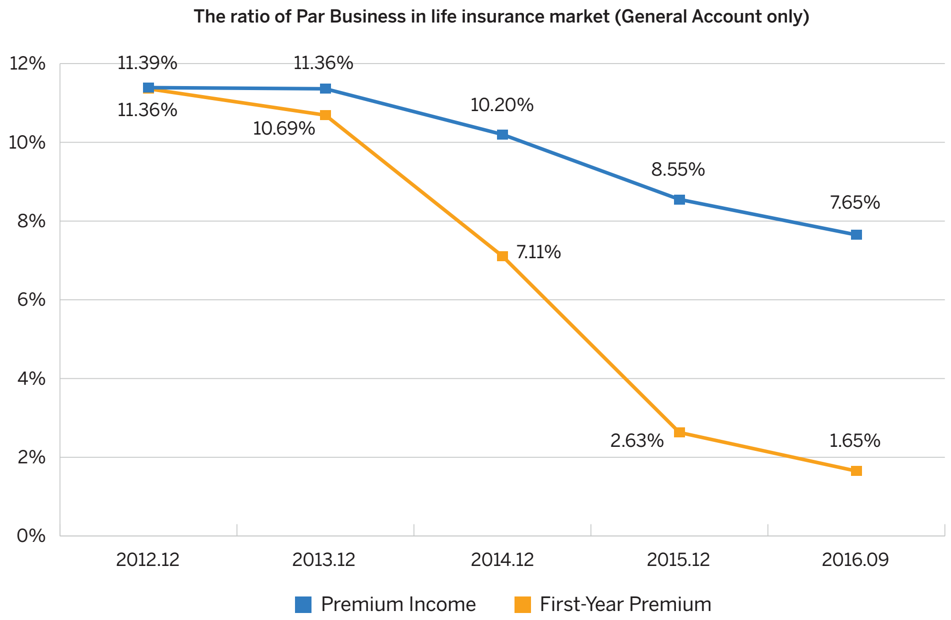
FIGURE 13: POLICYHOLDER RESERVES AND ACCUMULATED DIVIDENDS



SOUTH KOREA

Unlike other Asian markets, nonpar business is dominant in the Korean insurance market. The total premium income of par business is less than 10% of total premium income in the life insurance market for general account products. For the past five years, the proportion of par business has decreased even more, as shown in Figure 14.

FIGURE 14: RATIO OF PAR BUSINESS IN LIFE INSURANCE MARKET (GENERAL ACCOUNT ONLY)



The major par products are interest-sensitive savings, accounting for more than 92% of total premium income of par business. As of September 2016, 70% of interest-sensitive savings are tax-qualified annuity (TQA) products and the rest are other annuity products.

Until the 1990s, all insurance products were available as par products; fixed-interest rate products, and interest-sensitive products. The first nonpar product was introduced in the Korean market in 1992 by a foreign insurer. As more nonpar products became available in the market, more customers shifted to nonpar products, where the premiums are lower.

For par products, the surplus before policyholders' dividend reserve should be allocated between policyholders and shareholders in the ratio 90:10. When only par products were available in the market, 10% of surplus was the maximum profits allowed for shareholders. The introduction of nonpar products in 1992 created new opportunities for local insurers, as all local insurers are stock companies. Since early 2000, nonpar business began to expand.

While the Korean regulator initially allowed foreign insurers to sell nonpar products to diversify insurance products and to expand customer choice, the result has simply been a substitution of par with nonpar. Now, par business takes only a small proportion of the market. As the low interest environment continues, it is rare to find fixed-interest products and most par products that are available are interest-sensitive annuity products.

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.

Regulatory requirement in relation to par business is relatively less developed compared with the likes of Singapore and Malaysia. There is no requirement for fund segregation of par business and the management of par business varies, in most cases, depending on the internal requirements from the head office or the Board of Directors.

Disclosure requirements for par business currently take the form of a benefit illustration, in which companies are required to project benefit payouts based on an assumed interest rate.

VIETNAM

Traditional endowments have historically been 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 requires the establishment of a separate par fund (gated fund). Par business is typically written under a 70:30 profit-sharing arrangement, with the policyholder return provided almost exclusively through a mix of reversionary and terminal bonuses. The equity participation to par funds is typically low, which is due to regulatory limits on equity exposure, with policy returns largely driven by the performance of the local government and corporate bond markets.

Country report: **SINGAPORE**

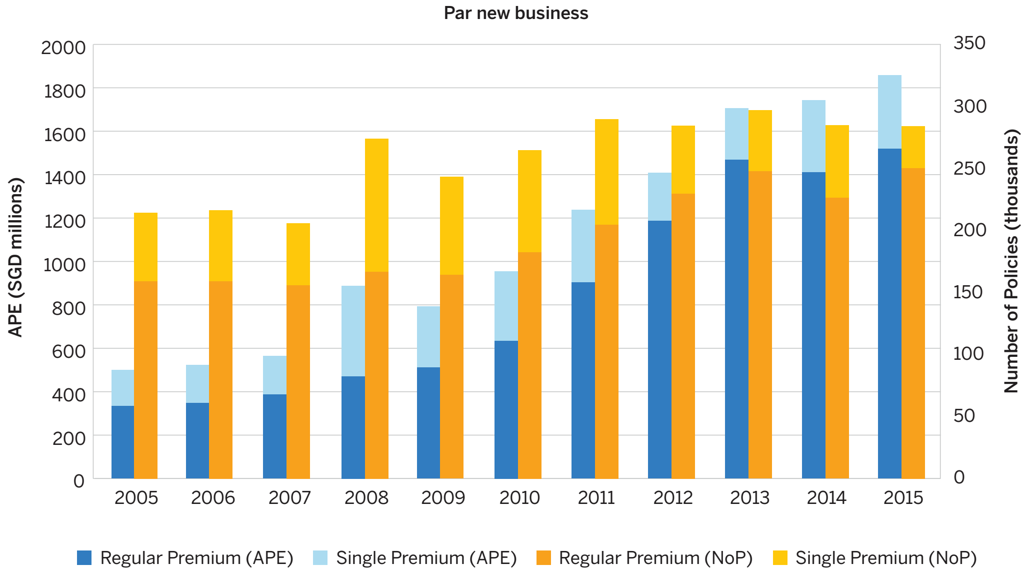
All statistics are based on aggregated figures across all par funds in the market, unless otherwise stated. Statistics have been sourced from the statutory Monetary Authority of Singapore (MAS) returns.

GENERAL BACKGROUND

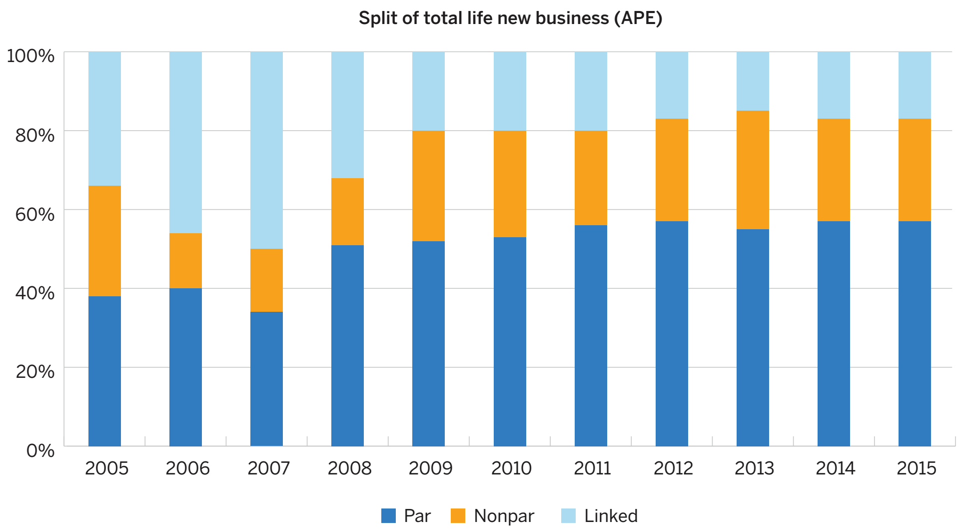
PAR BUSINESS FIRST SOLD	Early 20th century.
NUMBER OF PAR OPERATORS	11 of the 21 licenced life insurers have par funds.
CLOSURE TO NEW BUSINESS	All 11 par operators are continuing to sell par products.
TYPICAL BONUS STYLE	Majority is UK-style with reversionary and terminal bonuses, but some cash dividend products also exist.
TYPES OF PAR PRODUCTS	Regular and single premium endowment and whole life products dominate. There is also a small amount of par annuities.

NEW BUSINESS VOLUMES

NEW BUSINESS VOLUMES

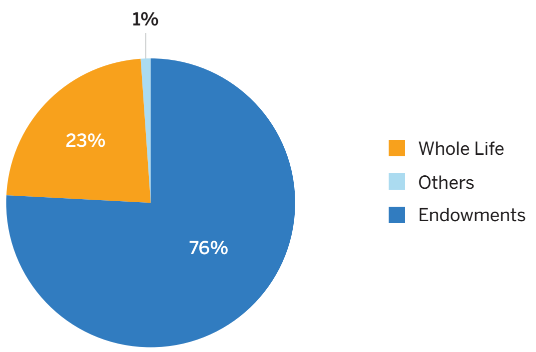


PROPORTION OF NEW BUSINESS THAT IS PAR



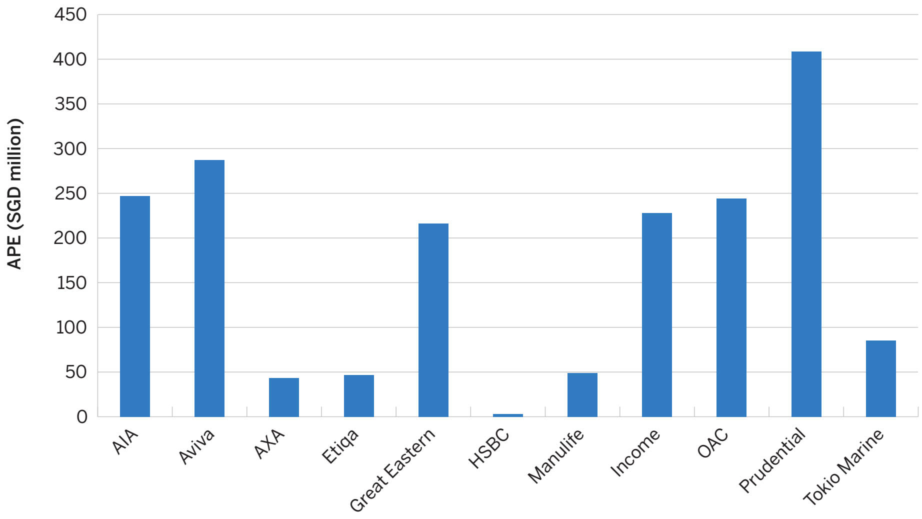
PRODUCT TYPES

2015 new business APE split



NEW BUSINESS SPLIT BY COMPANY

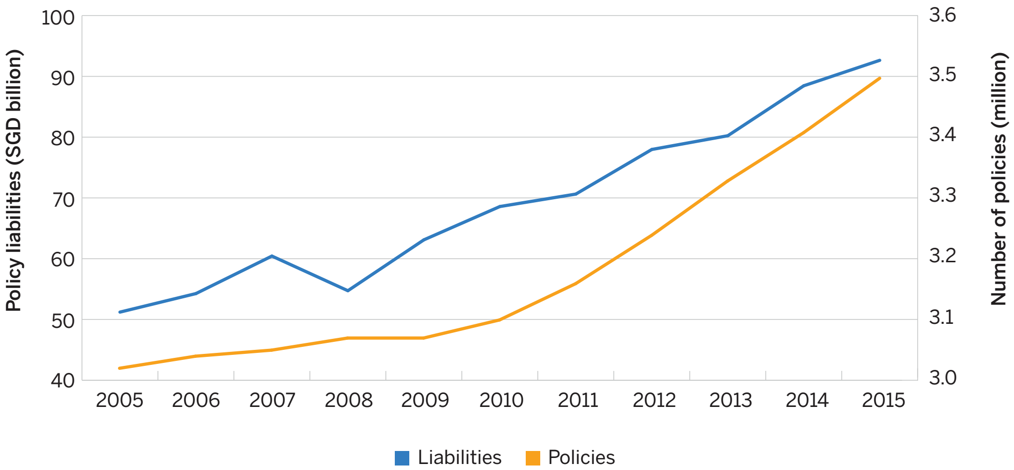
2015 par new business (APE) by company



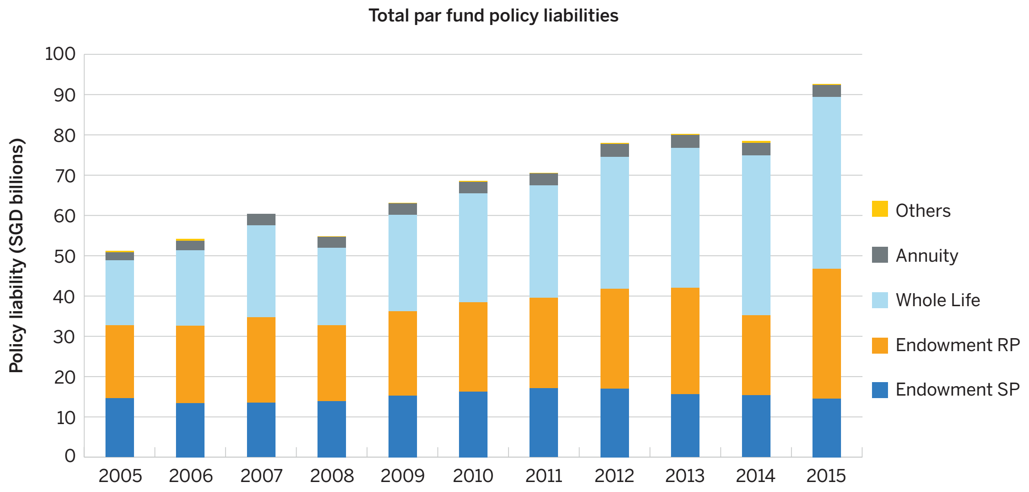
IN-FORCE VOLUMES

SIZE OF IN-FORCE PAR BUSINESS

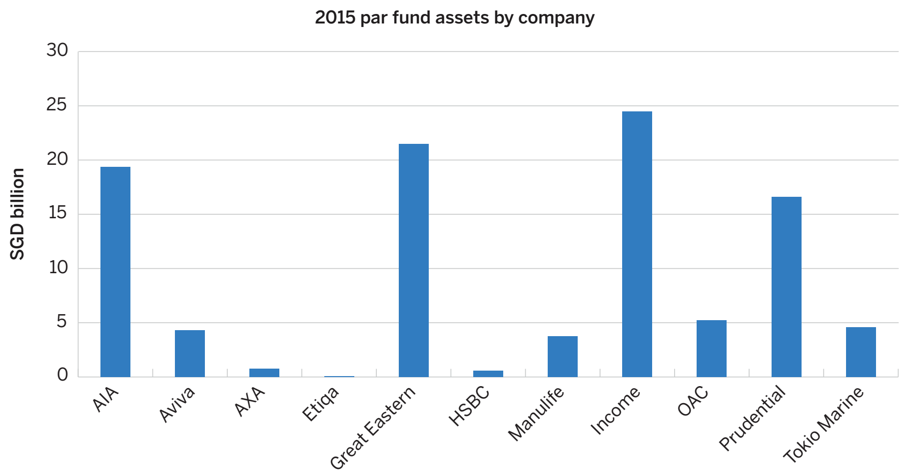
Growth in in-force participating business



SPLIT OF IN-FORCE PAR LIABILITIES BY PRODUCT TYPE



SIZE OF PAR FUNDS SPLIT BY COMPANY



REGULATION/GOVERNANCE

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

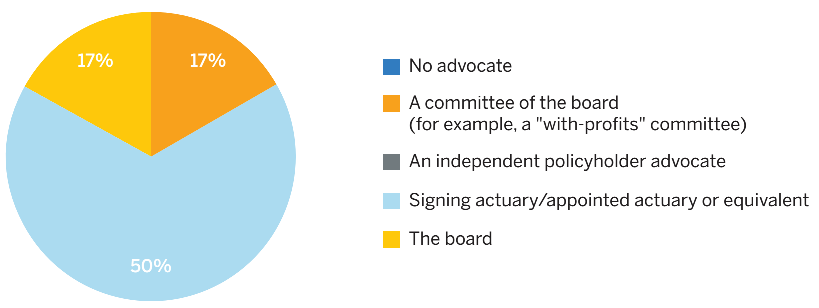
Shareholder transfers: Shareholders entitlement to profits distributed from a par fund are limited to a maximum of 10% (i.e., a 90:10 split).

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. The policy liabilities recognised in the fund are set equal to the higher of the total MCL 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). The financial resources of the par fund are any excess assets plus an allowance for non-guaranteed benefits in the liabilities (50% of 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.

Policyholder advocacy: There is no regulatory requirement for specific committees to oversee par funds. We obtained the following survey results for those that identified a policyholder advocate:

Singapore - Who is your policyholder advocate?



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: 4.75% per annum (p.a.) and 3.25% p.a. Illustrations must also show projections of distribution costs.

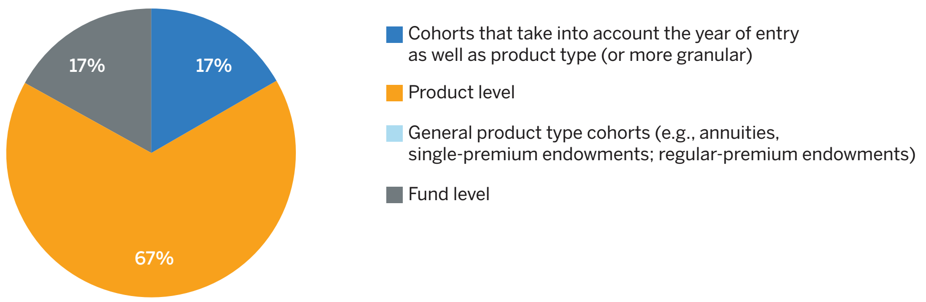
Other required disclosures: At the point of sale, insurers must provide a product summary including information on investment strategy, bonus policies, and risks.

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, but there is no regulatory requirements dictating a relationship between asset shares and benefit amounts.

The chart below indicates the results of our survey when participants were asked about the level of granularity of asset shares that are considered for payouts.

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

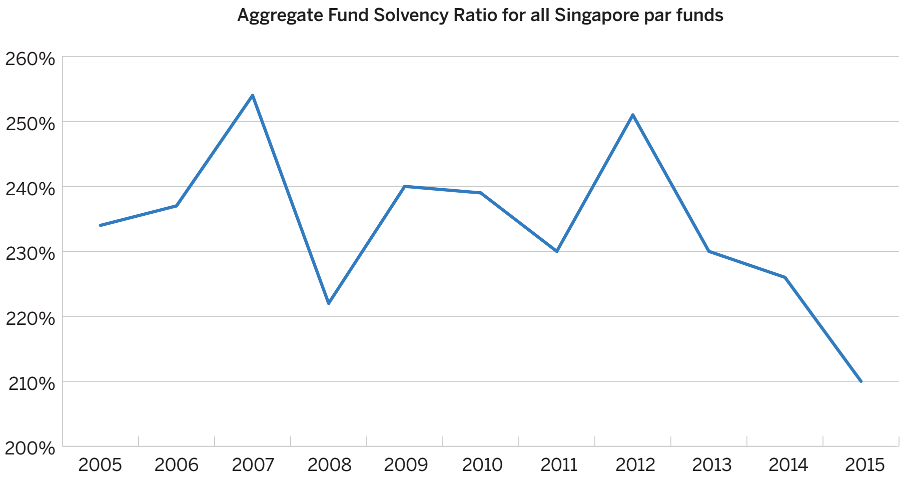


Based on the survey, 100% of respondents in Singapore indicated that they use asset share to guide payouts. All respondents also indicated that they leave bonus rates unchanged if bonuses are within acceptable range, rather than varying more dynamically.

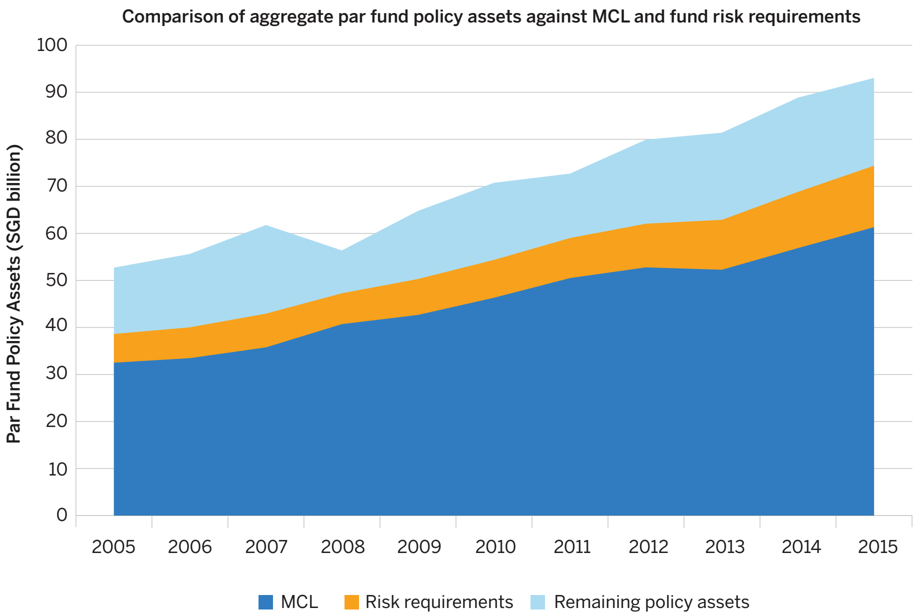
Estate: Because of the approach of assuming policy liabilities are at least equal to the total value of assets in the fund, the concept of an 'estate' is not recognised.

FUND STRENGTH AND CAPITAL

TREND IN SOLVENCY LEVELS

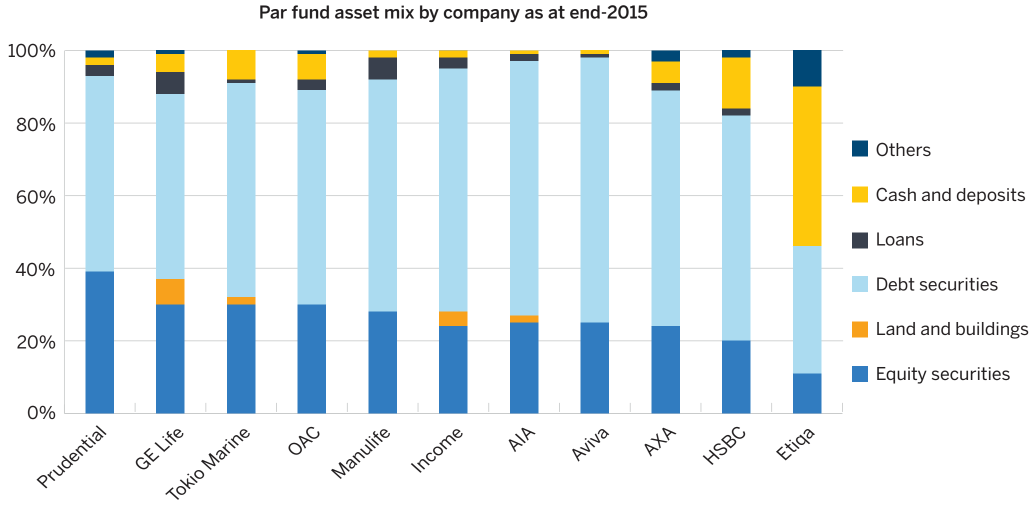


ALTERNATIVE CAPITAL VIEW

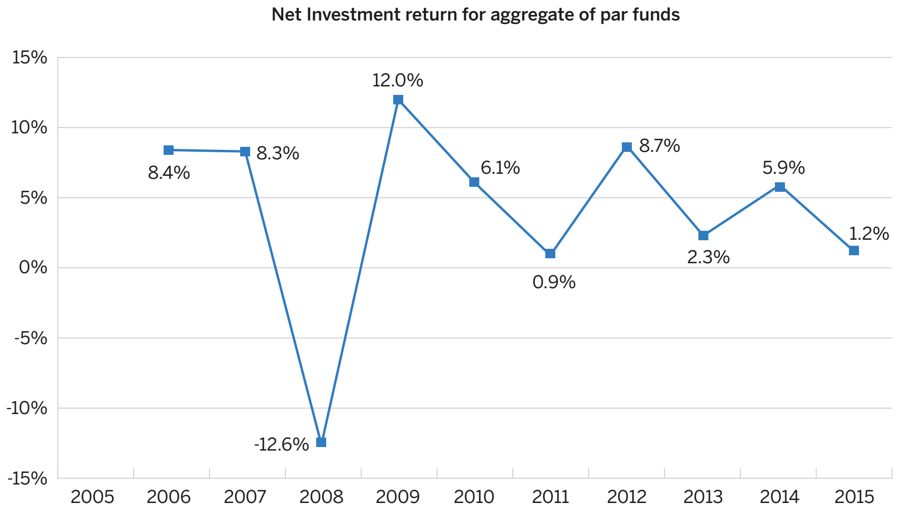


INVESTMENTS

INVESTMENT MIX



AGGREGATE INVESTMENT RETURNS

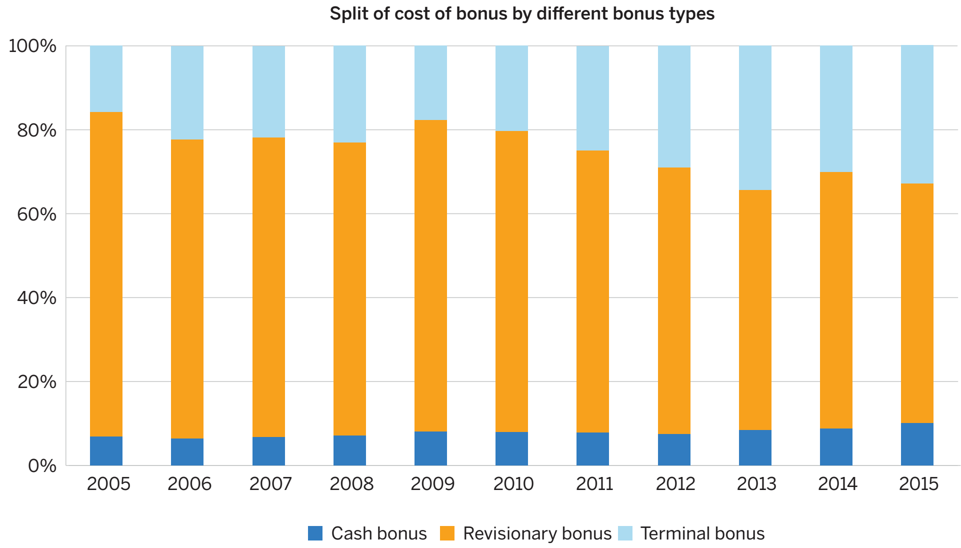


Hypothecation of assets: Varies by company, with some companies using a single investment strategy for the whole fund, and others hypothecating assets to back different groups of liabilities (as many as 10 in some cases).

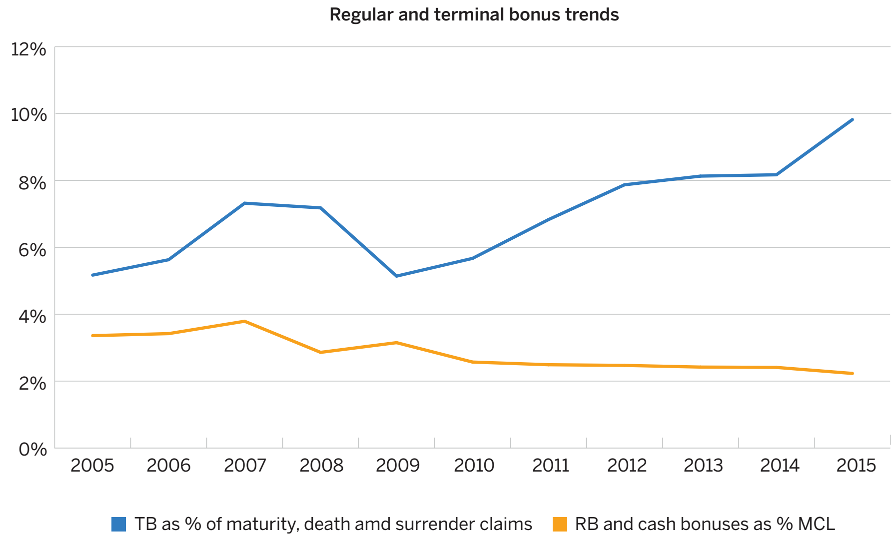
BONUSES

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 necessary bonus rates are cut. However, terminal bonuses are not as actively managed as they might be in the Malaysia, for example.

BONUS SPLIT BETWEEN REVERSIONARY, TERMINAL, AND CASH DIVIDENDS



TRENDS IN BONUS AMOUNTS



Country report: **INDIA**

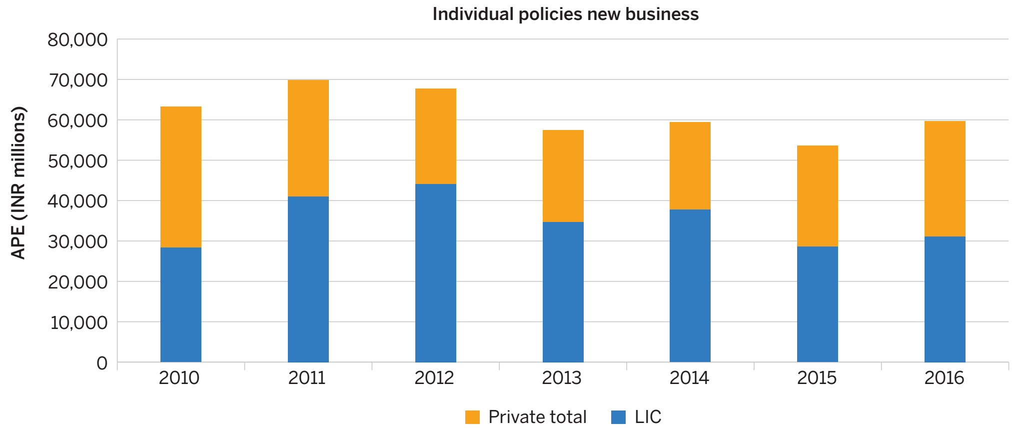
Figures quoted are in INR and data is for financial year FY16 (1 April 2015 to 31 March 2016), unless otherwise stated.

GENERAL BACKGROUND

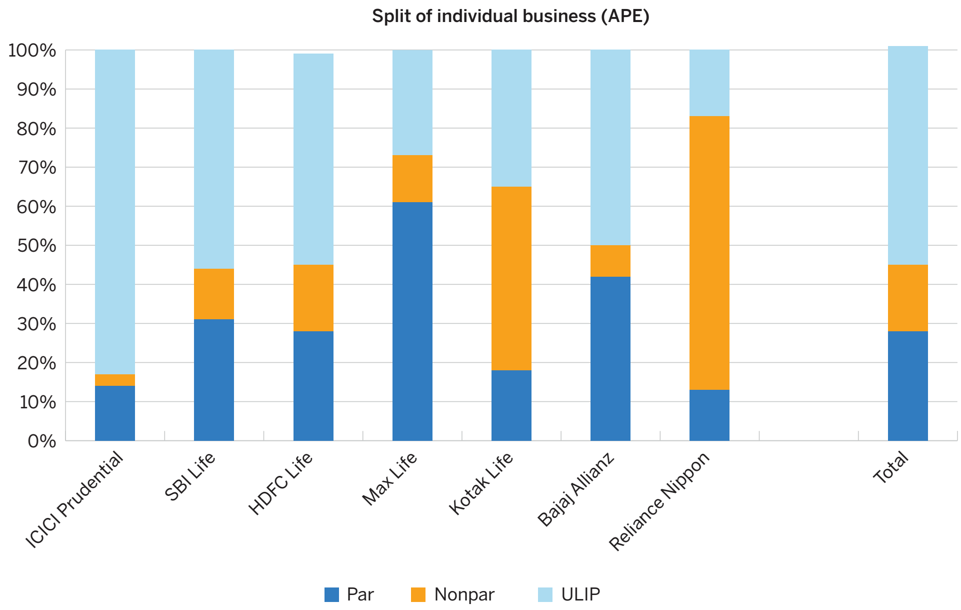
PAR BUSINESS FIRST SOLD	19th century.
NUMBER OF PAR OPERATORS	24 of the 24 licenced life insurers have par funds.
CLOSURE TO NEW BUSINESS	All 24 par operators continue to sell par products.
TYPICAL BONUS STYLE	Majority is reversionary and terminal bonuses, but some companies have cash dividend products.
TYPES OF PAR PRODUCTS	Regular and single premium endowment and whole life products dominate. Money-back options are also common.

NEW BUSINESS VOLUMES

NEW BUSINESS VOLUMES



PROPORTION OF NEW BUSINESS THAT IS PAR

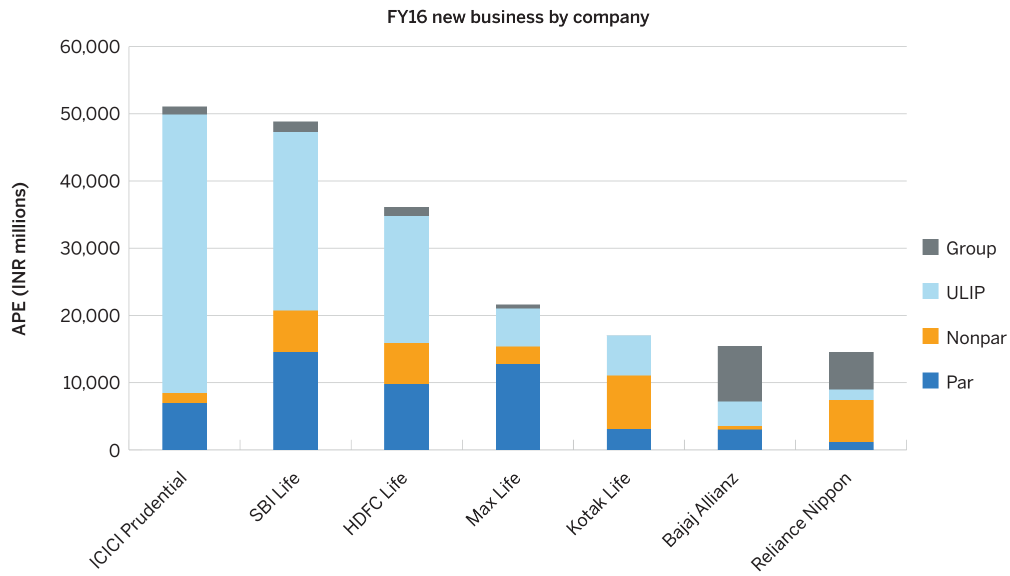


Because the proportion of par business at an industry level is dominated by the Life Insurance Corporation of India (LIC), which is almost entirely par, it is more helpful to consider private players only. Because statistics are not available for all companies, we show above seven companies which represent over 70% of the new business APE written in FY16.

Product types: Majority endowments, whole-of-life.

New business APE split by company (For seven companies), INR millions: The chart below shows new business APE written in FY16 split by company, in INR millions.

NEW BUSINESS SPLIT BY COMPANY

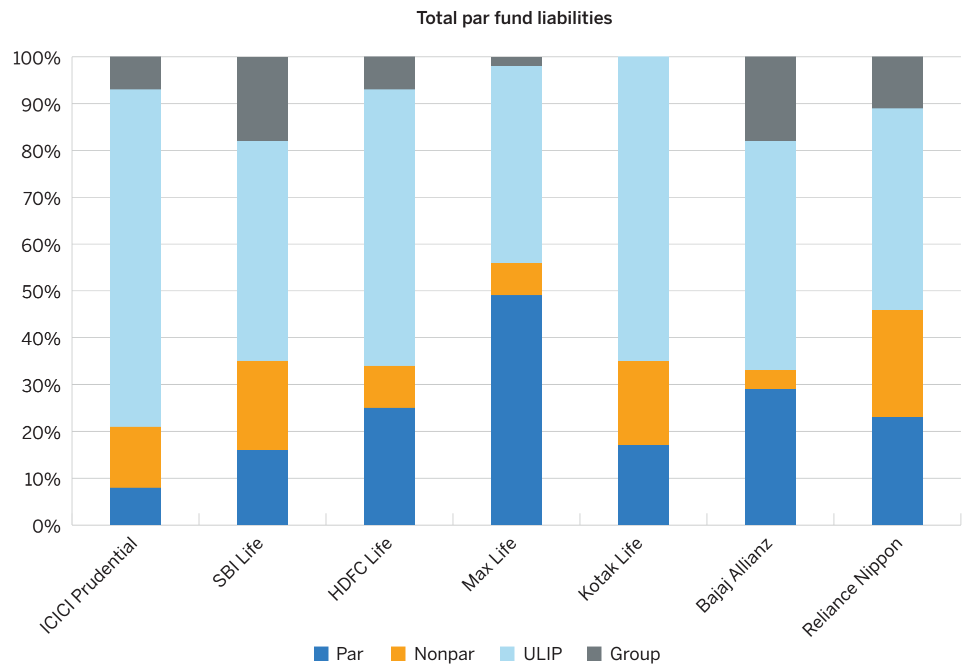


IN-FORCE VOLUMES

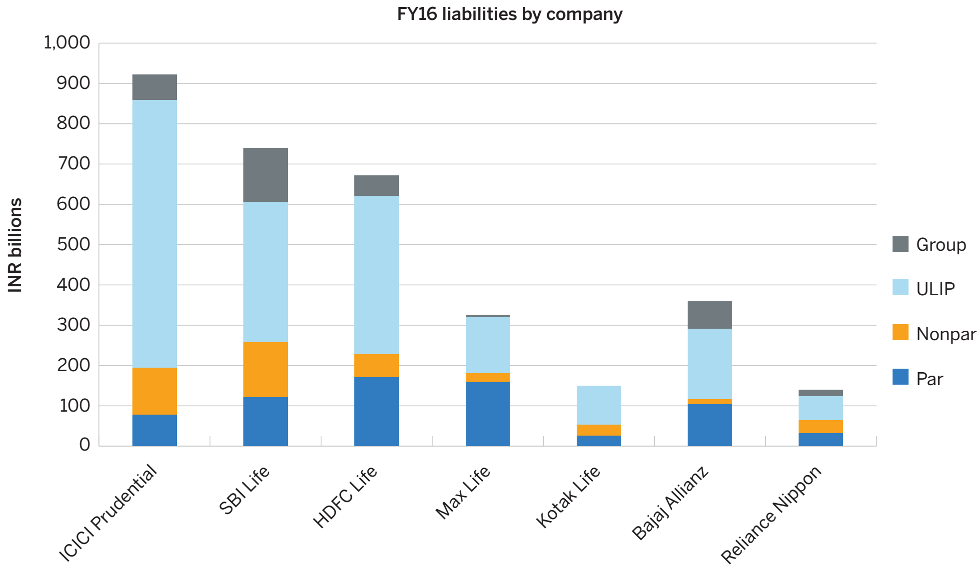
Size of in-force par business FY16: LIC's par individual assurance fund was INR 15 trillion (over USD 200 billion) at the end of FY16. LIC had around 280 million policies in its 'Individual Assurance' category, which is expected to be almost exclusively par.

Split of in-force liabilities by product type for seven companies: Because the proportion of par business at an industry level is dominated by LIC, which is almost entirely par, it is more helpful to consider private players only. We show below the split of FY16 liabilities for the same seven companies as above.

SPLIT OF IN-FORCE LIABILITIES BY PRODUCT TYPE



SIZE OF LIABILITIES 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 'gate'). The 90:10 gate creates issues for new entrants to par business, as any new business strain must be funded fully by the shareholder, whereas profits are only transferred back through the 90:10 gate.

Brief description of solvency regime: Policy liabilities are set with the GPV methodology, using assumptions with 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, nonpar 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.

With-profits committees (or similar): In accordance with regulatory requirements, each company has a 'with-profits committee' with the AA, CEO, and an independent director sitting as members. With-profits committees are required to approve the calculation of the asset share, with no formal requirement for a larger advocacy or oversight role.

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, non-mandatory, and the level of detail varies across companies.

All of the companies in our survey reported having an internal governance policy.

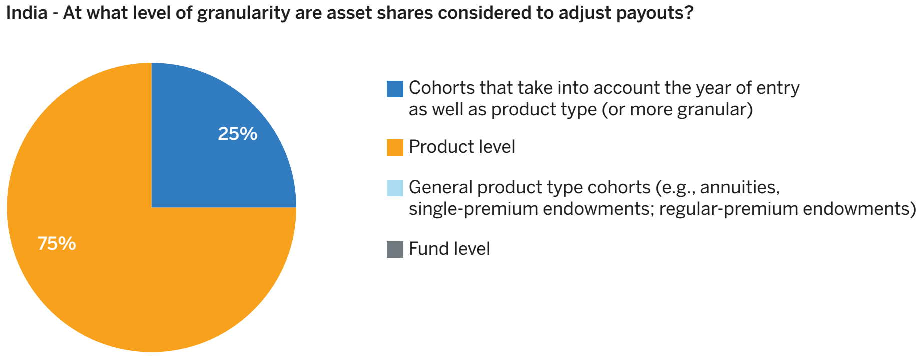
Illustration requirements: Policyholders are provided with an illustration at the point of sale detailing the regular and terminal bonus rates the policy can expect to achieve at 4% p.a. and 8% p.a. investment returns. Companies cannot charge expenses to asset shares at a higher level than those used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

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?

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

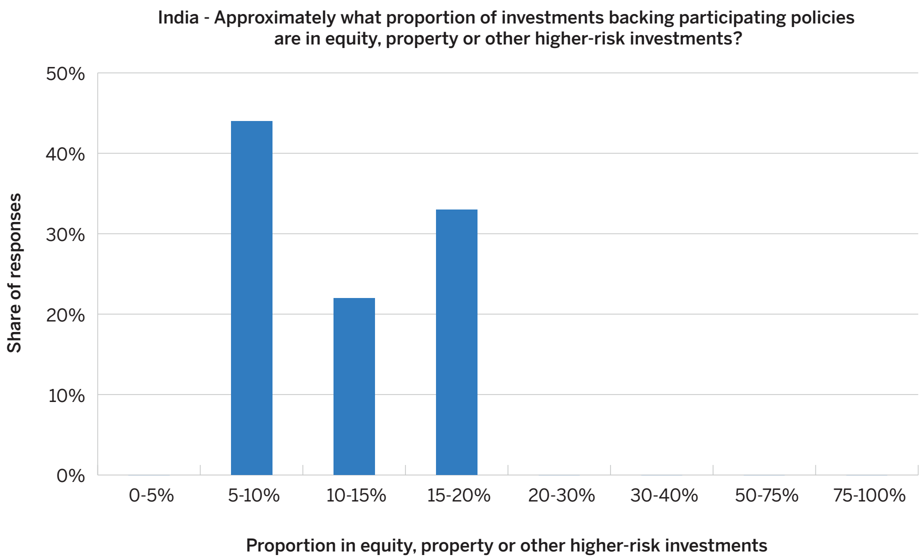


Estate: A policyholder's asset share is dictated by company policy, but might not include all policies surpluses, potentially leading to spare assets forming an 'estate' or pool of unallocated surplus. Some companies choose to hold this estate in the Funds for Future Appropriation (FFA)—which may then 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 par fund and investments in these classes is usually even lower than the cap. The following is an extract from our survey:

INVESTMENT MIX



Aggregate investment returns: Unknown

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.

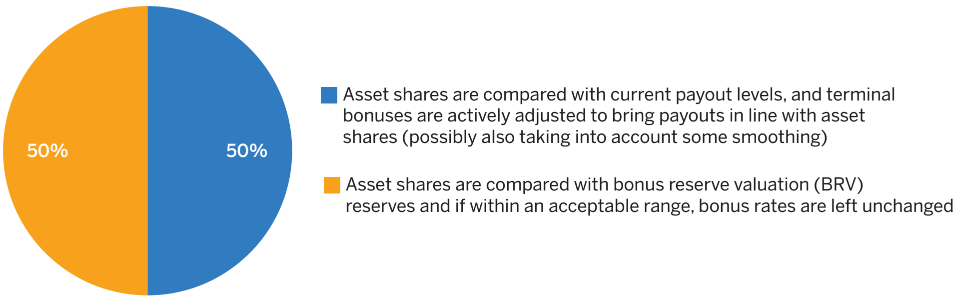
BONUSES

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.

The following chart indicates our survey results when survey participants were asked about ways asset shares are used to manage policyholder payouts.

GENERAL APPROACH

India - Which of the following best describes how your company uses asset shares to manage policyholder payouts?



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 industry knowledge. Takaful business (which also has elements of surplus sharing) has been excluded.

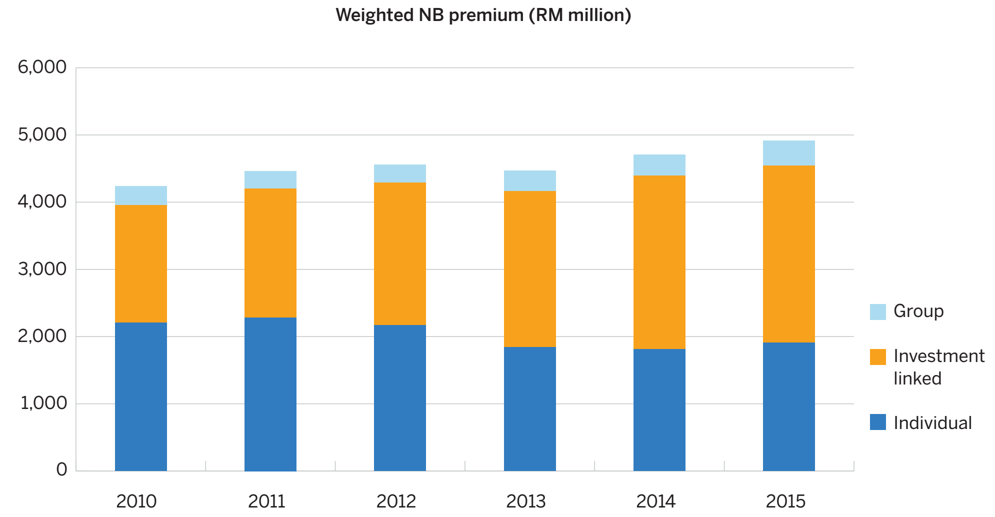
GENERAL BACKGROUND

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. One of the par operators has closed its par fund 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	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.

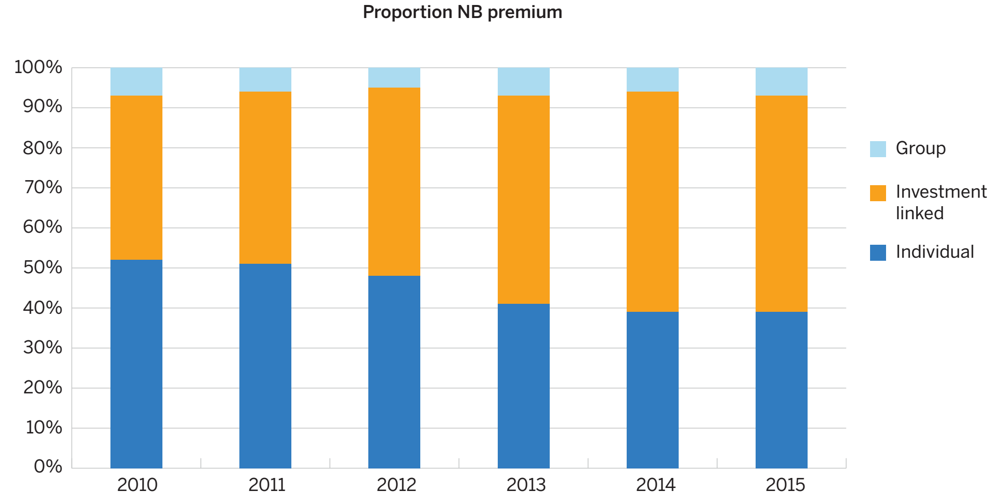
NEW BUSINESS VOLUMES

New business volumes: Generally decreasing new business volumes are observed in the industry. A summary of new business APE for the life insurance industry in Malaysia is shown below, with par business being categorised under 'Individual' business.

NEW BUSINESS VOLUMES



PROPORTION OF NEW BUSINESS THAT IS PAR



This is broadly consistent with the average par business share amongst our survey respondents, which indicated a range of 25% to 35%.

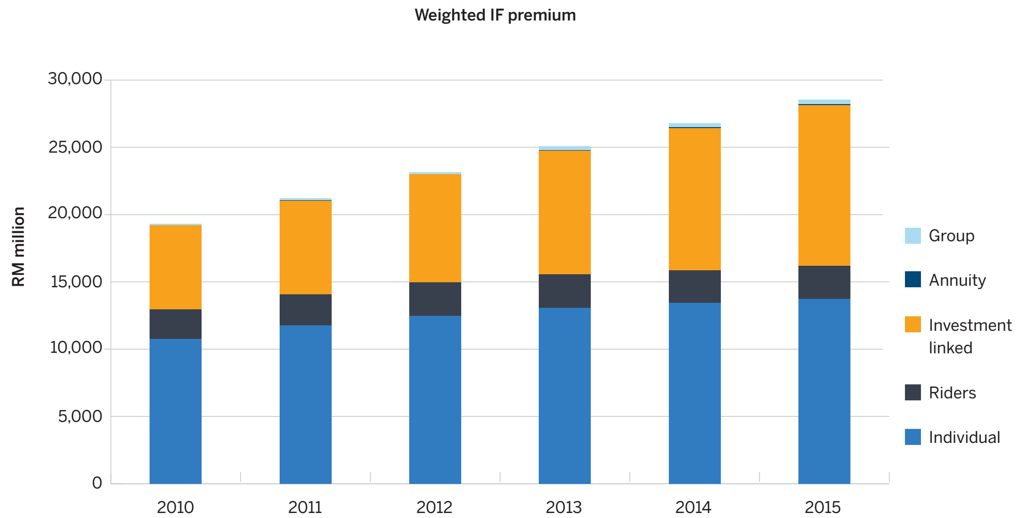
Product types: Regular premiums endowment and whole life products (often with a limited premium paying period) continue to dominate.

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 these companies have also changed the focus of their sales in recent years to investment-linked business, and therefore investment-linked business makes up a greater proportion of new business sales.

IN-FORCE VOLUMES

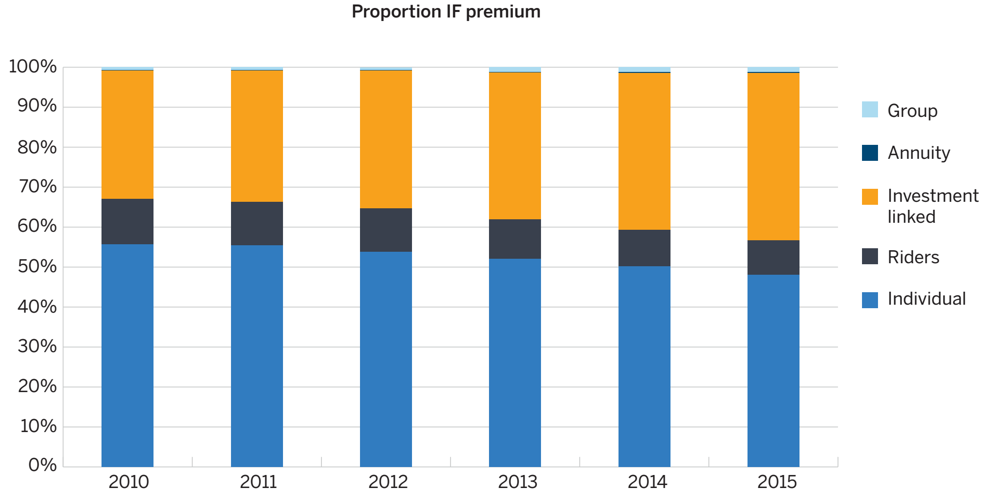
Size of in-force par business: Par busines in Malaysia is categorised under 'Individual' business. It can be observed that individual businesses remains a big proportion of the in-force premiums, at MYR 13.7 billion in 2015 in terms of APE.

SIZE OF IN-FORCE PAR BUSINESS



Split of in-force par liabilities by product type: Individual business, which is predominantly par business, remains a large proportion of the in-force premium, at 48% of the total in-force premiums in 2015 in terms of APE. However, this has decreased from 56% in 2010.

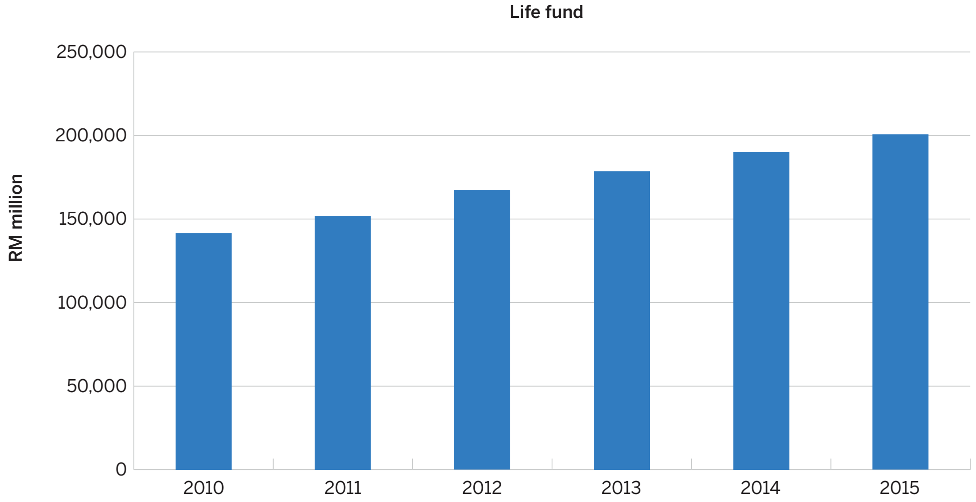
SPLIT OF IN-FORCE PAR LIABILITIES BY PRODUCT TYPE



Respondents to our survey suggested that the average share of in-force par business for their companies was in the range 55% to 75%. We note that our survey sample does not include all life insurers in Malaysia.

Size of par funds split by company: There is no publicly available document which provides information on the size of par funds split by company. However, it can be observed from the chart below that the life fund (i.e., the long-term fund for conventional life insurance business, which included par and nonpar business) in Malaysia continues to increase from MYR 142 billion in 2010 to MYR 201 billion in 2015, and this growth is driven mainly by sales of investment-linked business.

SIZE OF PAR FUNDS 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: Prospective actuarial valuation using the 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 benefits liabilities, derived at the fund level, where:

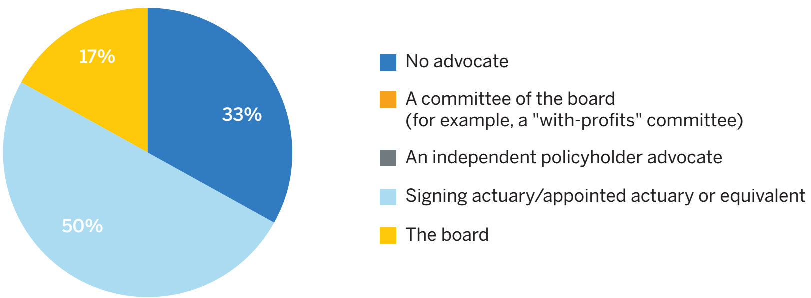
- For the guaranteed benefit liabilities, only the guaranteed benefits (including declared bonuses) are considered, by discounting all cash flows at the risk-free discount rate
- Under the total benefits liabilities, total guaranteed and non-guaranteed benefits are considered, by discounting all cash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

Capital requirements are calculated using an 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 (i.e., 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. In the past, par business has been largely managed by the AA. However under the new regulations, the onus for governance and oversight is with the Board of Directors. In view of this, and as confirmed through our survey, several companies have recently established committees to help the Board manage par business.

The chart below indicates survey results when participants were asked about the policyholder advocate.

Malaysia - Who is your policyholder advocate?



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 interest rates, 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, the 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) for approval one month before the implementation of the bonus revision.

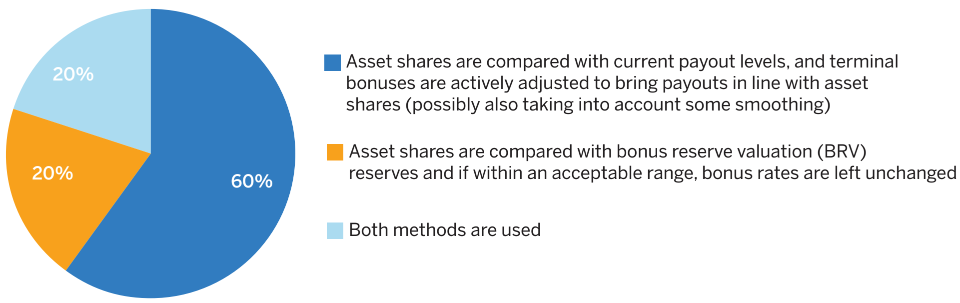
Communication to policyholders must explain the type of bonuses affected, the extent of the revision and the impact to the benefit amounts under their par life policies.

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 is between 90% and 110% inclusive of asset share at the cohort level.

The following chart indicates our survey results when participants were asked about ways asset shares are used to manage policyholder payouts. Asset shares are developed at a product level that takes into account the year of entry in Malaysia for all the companies we surveyed, in line with the regulations.

Malaysia - Which of the following best describes how your company uses asset shares to manage policyholder payouts?



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

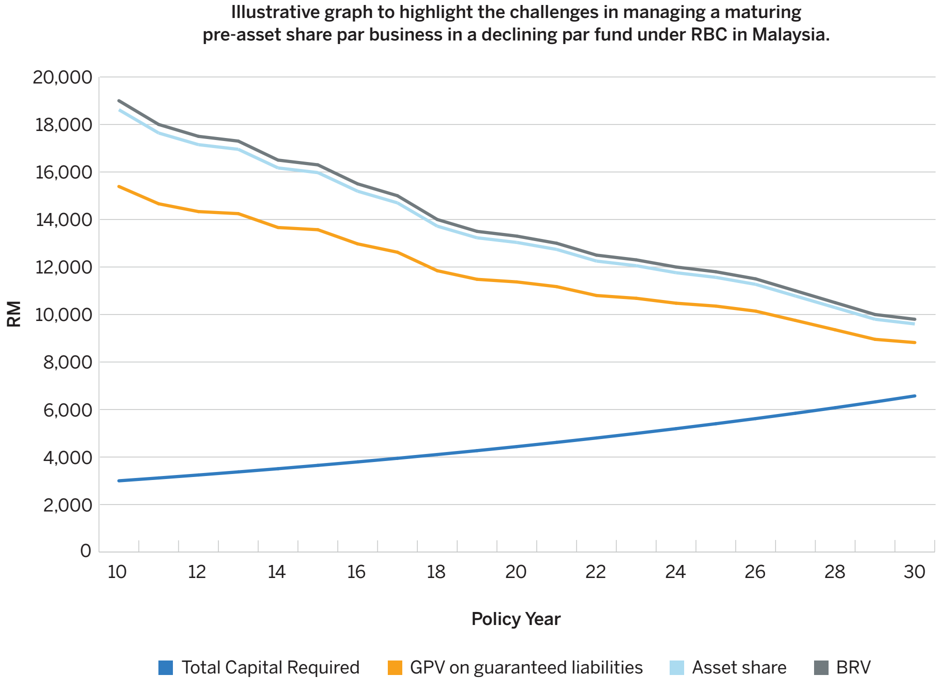
FUND STRENGTH AND CAPITAL

Trend in solvency levels: Companies have been observing a maturing par fund with an increasing level 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.

- As bonuses are declared and accrued, there is increasing Total Capital Required (TCR).
- As the level of guaranteed benefit increases, this reduces the availability of Tier 1 capital (i.e., 50% of future bonus). Hence there is less capital available in the par fund to meet capital requirements.
- Solvency issues are likely to arise as reserves (typically based on BRV) 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.

ALTERNATIVE CAPITAL VIEW

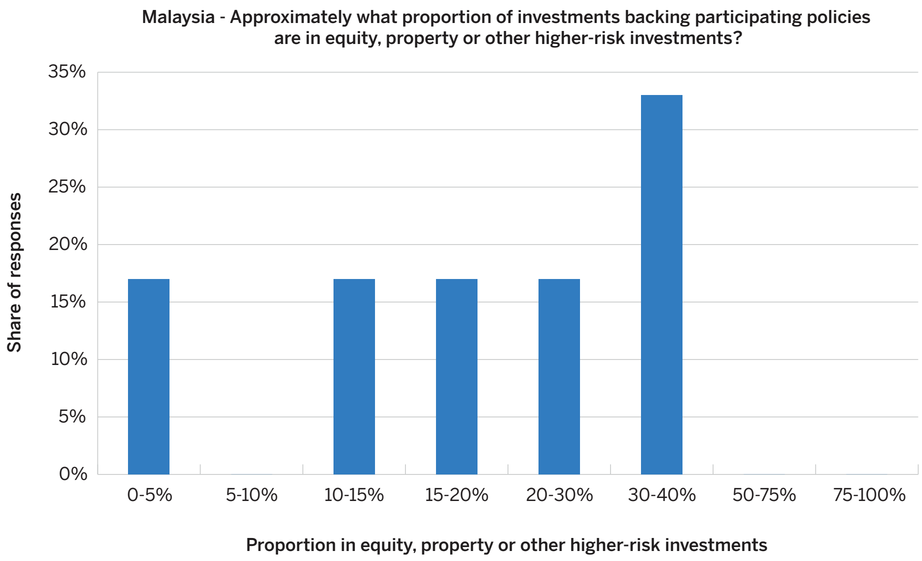


INVESTMENTS

Investment mix: Previously, companies relied on equity investments to support the high investment returns and the high yields arising from bonds to support the high investment returns assumptions and high 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 equity investments, with a higher investment mix in bonds.

The following graph indicates our survey results when participants were asked about their investments in equity, property, or other higher-risk investments.

INVESTMENT MIX



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

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 July 2015, companies are also giving consideration to hypothecating assets to back different groups of liabilities (e.g., notional segregation of the pre-2005 and post-2005 blocks).

BONUSES

General approach: For pre-2005 products, 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 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 chose to keep reversionary bonus rates low to minimise the level of guarantees. Subsequently regulators clamped down on the practice of excessive reliance on terminal bonuses.

Trends in bonus amounts: Companies have continued to cut regular bonus rates in view of the lower expected long-term investment returns of around 4% to 6%, compared with the original basis (which can be as high as 7% to 9% for the products sold in the 1980s and 1990s).

The terminal bonus is usually the balance between the guaranteed benefits and the asset shares.

Country report: **HONG KONG**

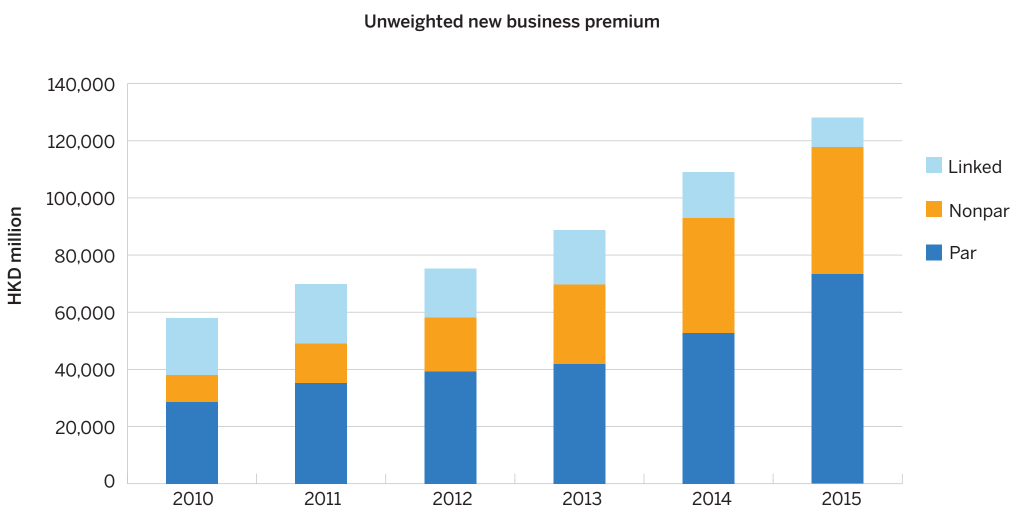
All statistics have been sourced from the Hong Kong Office of the Commissioner of Insurance (OCI) and based on our industry knowledge.

GENERAL BACKGROUND

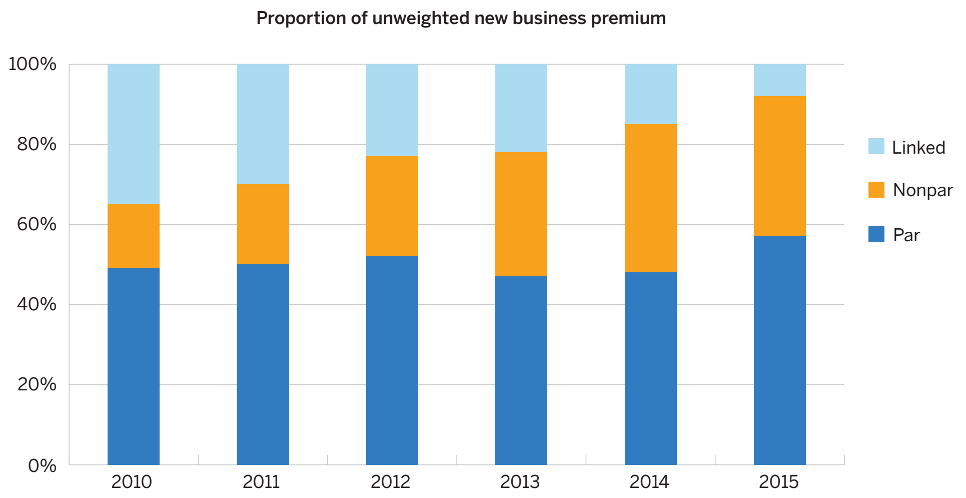
PAR BUSINESS FIRST SOLD	Early 20th century.
NUMBER OF PAR OPERATORS	Most of the licenced life insurers have par portfolios.
CLOSURE TO NEW BUSINESS	Most par operators are continuing to sell par products.
TYPICAL BONUS STYLE	Majority is US-style cash dividends with regular and terminal dividends common. Some UK-style reversionary/terminal bonus products also exist, with Prudential being a prominent provider. Recently some non-UK companies have also introduced UK-style par products.
TYPES OF PAR PRODUCTS	Limited pay whole life and endowment products dominate. There are also single and regular premium endowment and whole life offerings and annuities.

NEW BUSINESS VOLUMES

NEW BUSINESS VOLUMES



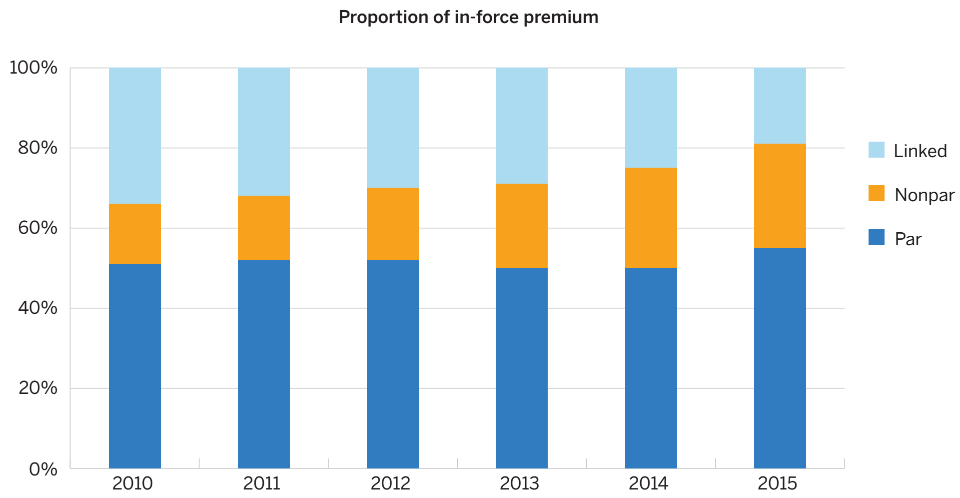
PROPORTION OF NEW BUSINESS THAT IS PAR



New business split by company: The majority of par new business is written by the larger insurers, such as HSBC Life, Prudential (HK) Life, China Life, AIA, AXA, and BOC Life.

SIZE OF IN-FORCE PAR BUSINESS

SPLIT OF IN-FORCE PAR LIABILITIES BY PRODUCT TYPE

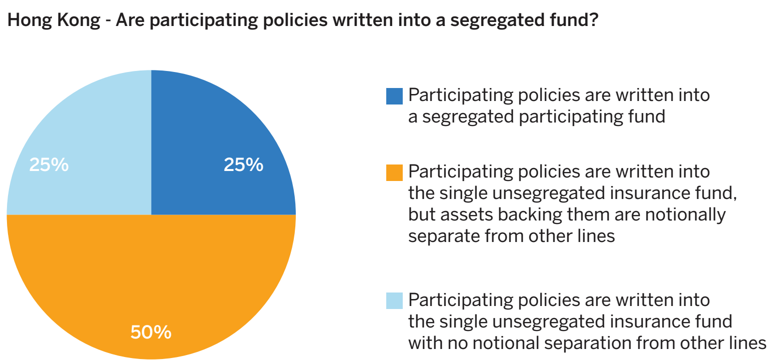


REGULATION/GOVERNANCE

Fund segregation: There are no explicit regulations in Hong Kong that determine the par fund structure. Three key types of fund structures have evolved over time:

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 is different from the general fund
3. Segregated fund in which assets are totally separated from the general fund and strict controls apply to the movement of capital into and out of the fund

The following chart indicates our survey results when survey participants were asked regarding their fund segregation.



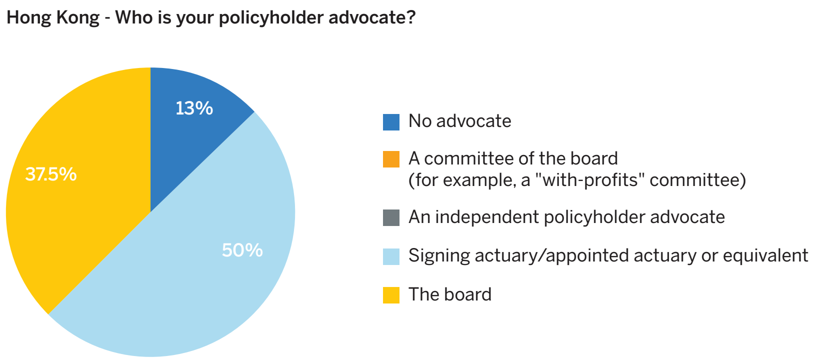
Shareholder transfers: There is no regulation with regards to the profit sharing between shareholders and policyholders for par policies, and it is not mandatory for companies to disclose their profit-sharing ratios.

Brief description of solvency regime: 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 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, as there is rarely a separate par fund being operated.

With-profits committees (or similar): No regulatory requirement for specific committees for par funds, although some companies are setting them up following the introduction of GN16.

The following chart indicates our survey results when participants were asked about the policyholder advocate.



Fund governance policies: GN16 requires insurers in Hong Kong to have a clearly documented internal policy to ensure appropriate governance of par policies.

The following chart indicates the results when survey participants were asked whether they have a fund governance policy and, if so, whether it is internal or external.

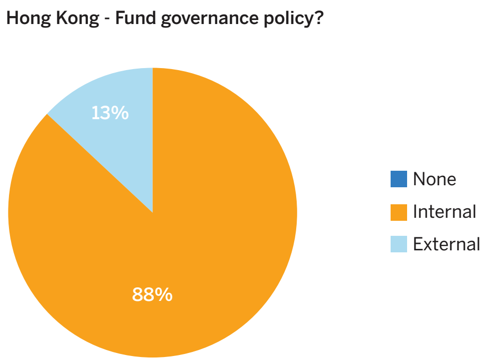


Illustration requirements: Sales illustrations must show both guaranteed and non-guaranteed benefits. Additional scenarios are required for investment return up or down by 1% p.a. or 2% p.a.

Under GN16 requirements, the range of sensitivities should reflect the potential volatility in the results, to illustrate 25th- and 75th-percentile scenarios. GN16 also requires companies to disclose details about the underlying assumptions of the scenarios, but emerging practice seems to show less detail than expected.

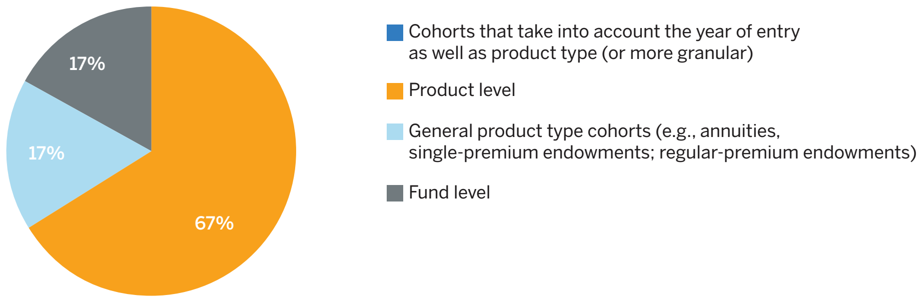
Other required disclosures: Post-sale, the annual statement of declared non-guaranteed benefit is provided.

Under GN16 requirements, at least an annual statement of declared non-guaranteed benefit and an updated in-force illustration are required.

Use of asset shares to guide payouts: Following the introduction of GN16, the use of asset share methodology in the dividends determination is becoming more prevalent. Benefits are typically set with reference to a policy's asset share, with the method of calculation being company-specific. A few companies perform individual asset shares 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 company 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.

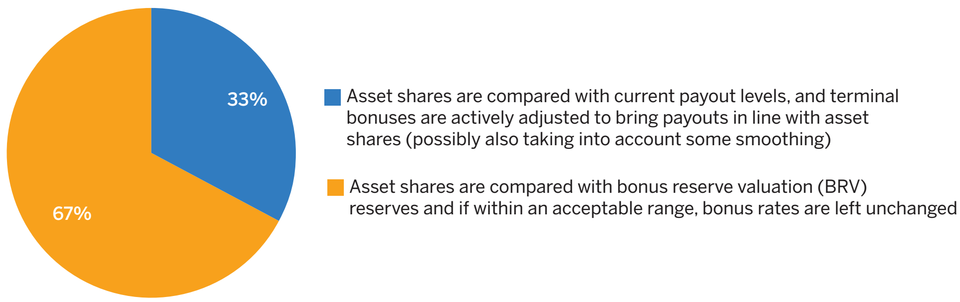
The chart below indicates the results when survey participants were asked about the level of granularity considered for asset shares to adjust payouts. Our survey results also show that 75% of insurers surveyed use asset shares to guide payouts.

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



The following chart indicates results when survey participants were asked about ways asset shares are used to manage policyholder payouts.

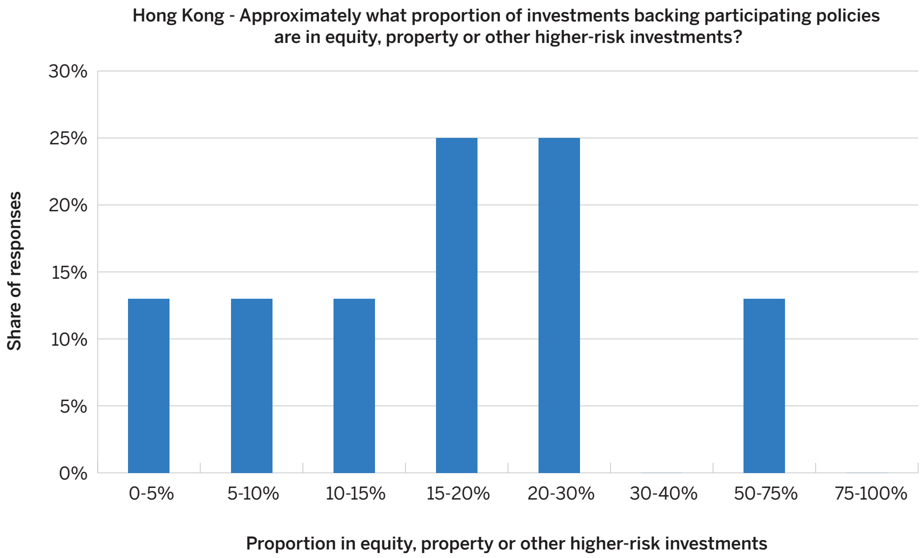
Hong Kong - Which of the following best describes how your company uses asset shares to manage policyholder payouts?



Estate: Estate may not be recognised given that not all par funds are segregated.

INVESTMENTS

INVESTMENT MIX



Aggregate investment returns: Unknown.

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 (at least annually) and if necessary there will be cuts to both cash dividends and terminal dividends.

Bonus split between reversionary, terminal, and cash dividends: Majority is US-style cash dividends and terminal dividends, but some reversionary bonus products also exist, mainly for UK companies. Recently some non-UK companies have also introduced bonus products.

The majority of companies have designed higher terminal bonus products in an effort to reduce the guaranteed component of returns.

Trends in bonus amounts: Companies have continued to cut regular bonus rates as USD-denominated and HKD-denominated bond yield curves have fallen.

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 Insurance Regulatory Commission (CIRC), Yearbook of China Insurance, and our industry knowledge.

GENERAL BACKGROUND

PAR BUSINESS FIRST SOLD	In the year 2000.
NUMBER OF PAR OPERATORS	64 of the 64 licenced life insurers and two of the six pension companies have par funds.
CLOSURE TO NEW BUSINESS	Most par operators are continuing to sell par products.
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, while annuities and whole life products are sold as well.

NEW BUSINESS VOLUMES

Although publicly available information on par business in China is limited, a sudden slump of new business volumes since 2013 has been observed in the industry. This is because, in 2013, CIRC lifted the pricing interest rate ceiling (which used to be 2.5%) for traditional nonpar products. Traditional nonpar products are much more appealing compared with par products, because of much lower premiums (an average 20% markdown). However, in September 2015, CIRC also lifted the pricing interest rate ceiling of 2.5% for par products. It was anticipated that par products would regain some market share.

Our survey results implied that the average share of new par business for the companies in our survey was in the range 30% to 40%.

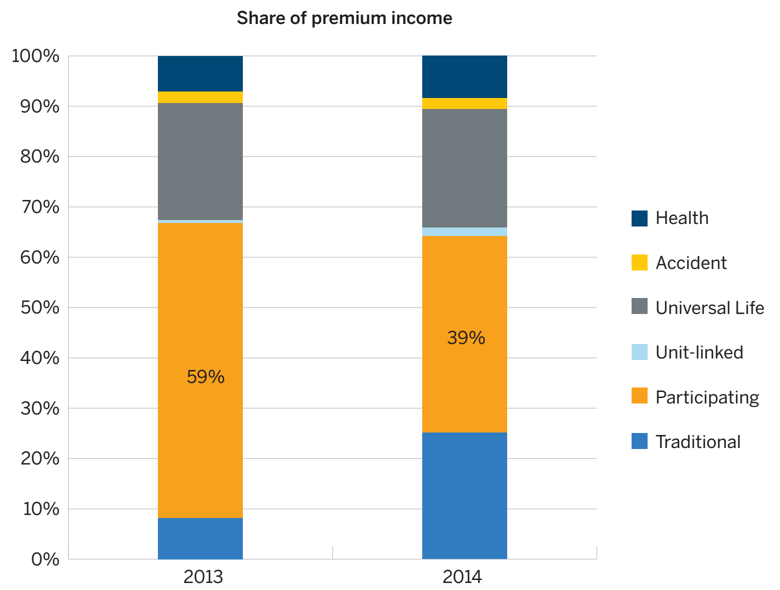
Proportion of new business that is par: Accurate numbers are not available, but it is estimated that new business volumes of par products falls to as low as 20% of total new business sales in 2014.

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

New business split by company: The majority of par new business remains with the large insurers, such as China Life, Ping An, New China Life, Taiping Life, and China Pacific Life Insurance.

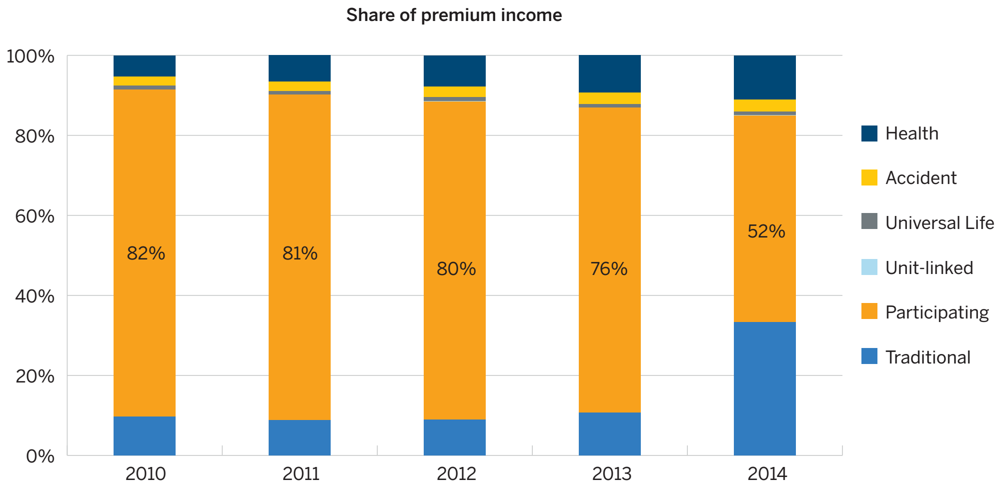
IN-FORCE VOLUMES

SIZE OF IN-FORCE PAR BUSINESS



Proportion of in-force par business: The individual business, which is predominantly par business, remains a big proportion of the in-force premium, at 52% of the total in-force premiums in 2014 in terms of gross written premiums (GWP). However, a decreasing trend is observed whereby the proportion has fallen from 82% in 2010 to 76% in 2013, and a sudden plummet in 2014 has decreased that proportion to 52%.

PROPORTION OF IN-FORCE PAR BUSINESS



Premiums of unit-linked and universal life in the above chart are in terms of China GAAP and do not include deposits of insured.

For companies in our survey, the average share of in-force reserves contributed by par business was in the range 45% to 65%.

Size of par funds split by company: There is no public information on the size of the par funds split by company. However it can be observed that the life fund in China continued to increase from 2000 to 2015, and this growth was driven mainly by sales of par endowment products.

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 is required to formally transit to China Risk-Oriented Solvency System (C-ROSS) at the beginning of 2016. C-ROSS has a three-pillar structure, very similar to EU's Solvency II regime.

The main goals of a new solvency regime are risk-oriented capital requirements and adaptation to the reality of China's insurance market, while remaining compatible with international practice.

Policyholder reserves are calculated as the sum of the best estimate reserve (BER) and 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 in estimating cash flows under 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.

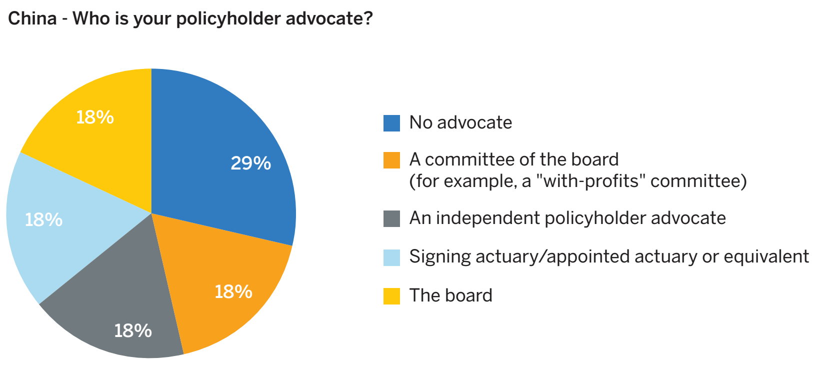
The TVOG factor is based on adjusted residual duration and the pricing interest rate (guaranteed interest rate) for par business.

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.

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): 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.

The chart below indicates our survey results when survey participants were asked about the policyholder advocate.



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

The following chart indicates our survey results when survey participants were asked whether they have a fund governance document and, if so, whether it's internal or external.

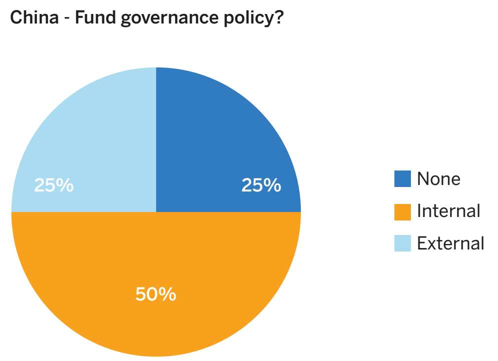


Illustration requirements: Sales illustrations must show low-level, mid-level, and high-level benefits. The low-level, mid-level, and high-level interest rate spreads used for illustrations should be lower than zero, 4.5% minus the pricing interest rate, and 6% minus the pricing interest rate, respectively. But the insurer should not disclose the assumed investment return used for illustrations, nor use words or phrases like "dividend yield" or "investment return" to describe different levels of benefits.

The following sentence should be prominently placed on product specifications, brochures, or any other marketing materials: 'Bonus levels are non-guaranteed, can be as low as zero.'

For any in-force par policies, if the actual bonus level cannot reach the illustrated mid-level, the insurer has to cut mid- and high-level illustrated bonus rates. The adjusted mid-level illustrated bonus rate should be lower than the average actual rate of the past three years.

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 gain, expense gain, and interest gain) should be briefly explained.

Post-sale, the annual bonus statement should include: a review of past paid premiums and past received bonuses; details 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. Some companies, use illustrated bonuses to guide payouts.

Survey results implied that 33% of the companies surveyed used asset shares to guide payouts.

FUND STRENGTH AND CAPITAL

Trend in solvency levels: With the implementation of C-ROSS, a more stringent regulatory requirement, and the current low interest rate environment, there will be potential solvency issues going forward for some companies.

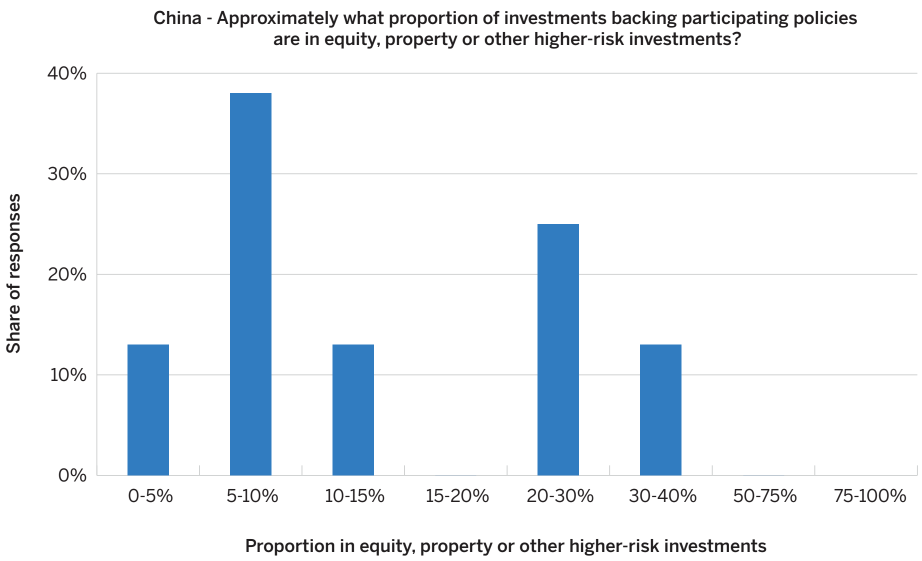
Estate: Estate is not mandatory in China so it is not relevant.

INVESTMENTS

Investment mix: Previously companies heavily relied on investment in bonds and equities. Since June 2010, the new regulatory rule 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 the C-ROSS Solvency Framework, which applies high-risk charges for these assets, insurers have to consider capital requirements when making investment decisions. They may have to optimise their asset portfolios to reach target investment returns in a capital-efficient way. Taking advantage of the diversification effect might be a solution.

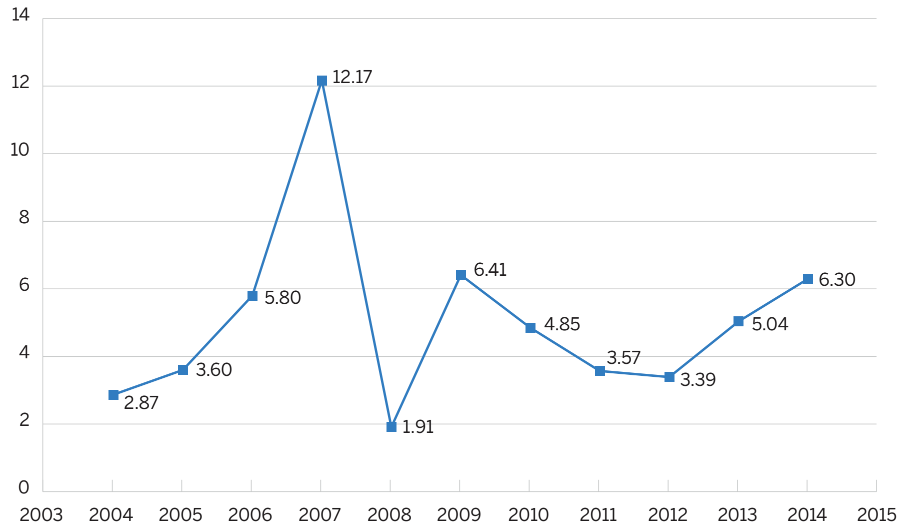
The chart below indicates the proportion of investments backing par policies that are equity, property, or other higher-risk investments.

INVESTMENT MIX



Aggregate investment returns: The investment returns have been very volatile, thanks to the high volatility of the Chinese equity markets, and in particular the surge in 2007 and the slump in 2008 have had significant impacts on insurers' annual total return.

AGGREGATE INVESTMENT RETURNS



2004-2014 Insurance fund investment return

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 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 interests of time deposits.

Trends in bonus amounts: The regulator requires that insurers should not publicly disclose or advertise history and current bonus rates. Only policyholders can get an annual bonus statement from the insurers. With no public information, what we know for sure is that the bonus rates of large companies largely depend on a company's investment performance, while smaller insurers or new market participants tend to pay stable bonus rates (usually 4% to 5%) regardless of actual performance.

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.
CLOSURE TO NEW BUSINESS	Not publicly disclosed.
TYPICAL BONUS STYLE	Mostly cash dividend for proprietary companies, but reversionary bonus for Bumiputera 1912. Terminal bonuses are less common.
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 2% to 3%.

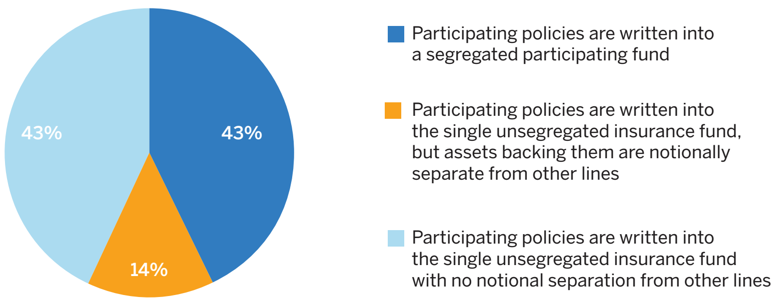
Size of in-force par business: The average share of par in-force business as reported by our survey respondents was in the range of 10% to 20%.

REGULATION/GOVERNANCE

Fund segregation: Not required by regulation.

The following chart indicates our survey results when survey participants were asked about fund segregation.

Indonesia - Fund segregation



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. Reserves for par policies will typically only allow for guaranteed benefits for solvency reporting.

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

Only 18% of companies surveyed reported having a 'policyholder advocate,' and this was the appointed actuary.

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.

The following chart indicates our survey results when survey participants were asked whether they have documentation regarding fund governance and, if so, whether it's internal or external.

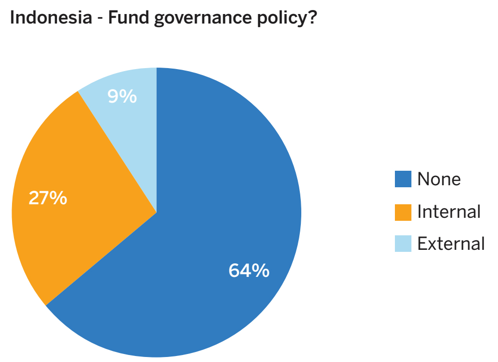


Illustration requirements: There are no additional illustration requirements specific to par products.

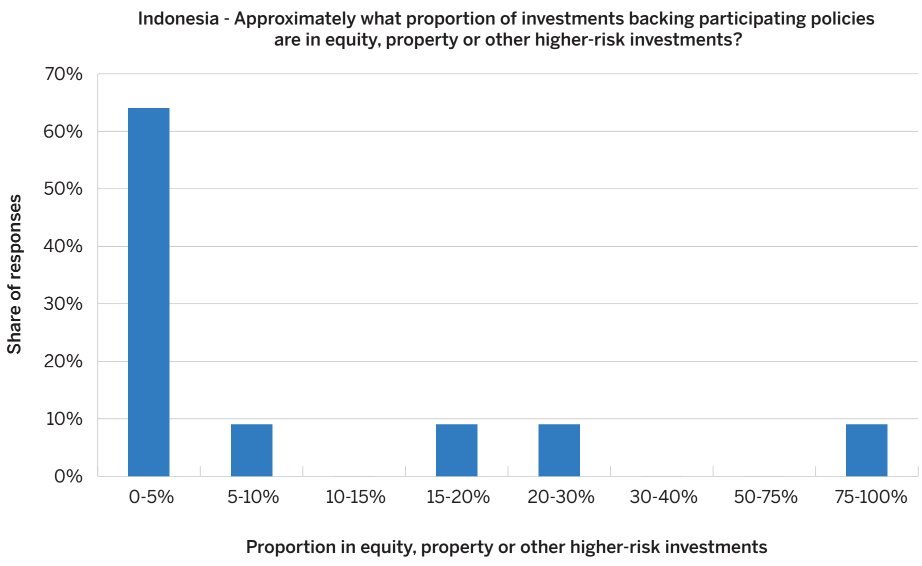
Other required disclosures: There are no additional required disclosures specific to par products.

Use of asset shares to guide payouts: There is no regulatory requirement around using asset share to guide payouts, although, based on the survey result, three out of 11 of companies reported using asset shares.

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

INVESTMENTS

INVESTMENT MIX



Aggregate investment returns: Not publicly disclosed.

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

BONUSES

General approach: Typically set based on performance of assets over the previous year, without any reference to asset shares.

Country report: SRI LANKA

GENERAL BACKGROUND

PAR BUSINESS FIRST SOLD	Since inception.
NUMBER OF PAR OPERATORS	Only a few companies focus on par, with some ignoring entirely such as AIA Lanka.
CLOSURE TO NEW BUSINESS	None.
TYPICAL BONUS STYLE	Almost exclusively reversionary and terminal (UK-style).
TYPES OF PAR PRODUCTS	Endowment, whole of life.

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 5% to 10%.

Size of in-force par business: The average share of par in-force business for those companies participating in our survey was in the range of 20% to 40%.

REGULATION/GOVERNANCE

Fund segregation: Practices vary amongst insurers. Par is not typically written into a segregated fund.

Shareholder transfers: 90:10

Brief description of solvency regime: With effect from 1 January 2016, the 'total benefits liabilities' are determined using a GPV approach and using assumptions with margins for adverse deviation. These GPVs consider future premiums, guaranteed and non-guaranteed benefits, and the expected future management and distribution expenses, discounted at the fund earnings rate. Additionally, insurers must calculate a guaranteed benefits liability using only the guaranteed cash flows and discounted at the risk-free rate. The liability in respect of par business is the higher of the total benefits liability and the guaranteed benefits liability.

Capital requirements are calculated using a risk-based capital approach, allowing for insurance risks and asset risk charges (including duration mismatch).

With-profits committees (or similar): No companies in our survey reported having a policyholder advocate.

Fund governance policies: The following chart indicates our survey results when participants were asked whether they have a fund governance document and, if so, whether it's internal or external. We received four responses to our survey from Sri Lanka.

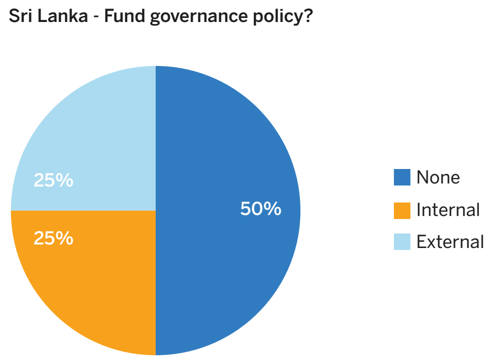


Illustration requirements: None

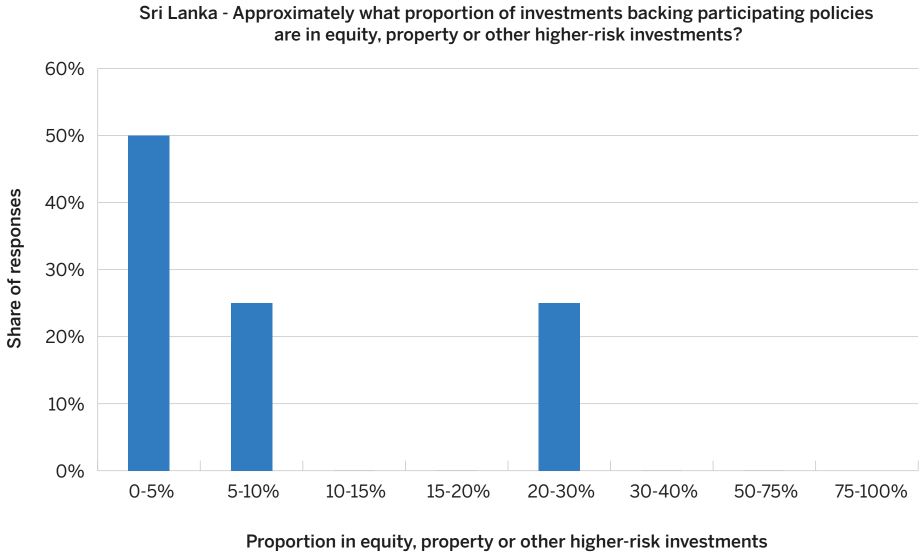
Other required disclosures: None

Use of asset shares to guide payouts: 25% of the companies surveyed reported using asset shares.

Estate: Because the par fund is subject to a 90:10 gate, any undistributed surplus in excess of the reserves can be viewed as an estate. However, as not all companies write par business into a segregated fund (or even notionally segregate par from other lines), this estate may not be readily identifiable from other policyholder funds.

INVESTMENTS

INVESTMENT MIX



BONUSES

General approach: Usually focusses on maintaining the pricing basis if possible.

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.
BRV	Bonus reserve valuation.
Cash dividend	Discretionary cash bonus made to policyholder, usually annually, as part of profit distribution mechanism.
EBR	Equity backing ratio. The proportion of a fund's assets invested in equities (usually includes property and other riskier assets).
FSR	Fund solvency ratio. Singapore solvency measure, defined as the ratio of financial resources of fund over the total risk requirements of the fund.
GFC	The 2008 global financial crisis.
GPV	Gross premium valuation.
IF	In-force policies.
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.
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).
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.
Traditional par	Non-unitised participating policy with profit distribution typically allocated through reversionary bonuses, terminal bonuses, and cash payments.
ULIP	Unit-linked investment product (India).
Universal life	Nonparticipating insurance product where the policyholder has an account value that the insurer credits with interest and deducts charges for the insurance cover provided.
With-profits	Alternative term for participating business, more commonly used in the UK.

Appendix: Full survey

QUESTIONS	CHOICE OF ANSWERS	ANSWER								
		1	2	3	4	5	6	7	8	9
1. Which country does your company operate in? For multinationals, please only answer in relation to the country in which you work.	Select any one	China	Hong Kong	India	Indonesia	Malaysia	Singapore	Sri Lanka		
2. Approximately what proportion of your company's new business APE do participating policies account for?	Select any 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 any one	0-5%	5-10%	10-25%	25-50%	50-75%	75-100%			
4. Approximately what proportion of investments backing participating policies are in equity, property or other higher risk investments?	Select any one	0-5%	5-10%	10-15%	15-20%	20-30%	30-40%	40-50%	50-75%	75-100%
5. Do you have an internal policy for how your participating business is managed?	Yes/No	Yes	No							
6. Does your internal policy cover the following?	Select multiple or none	How bonus/ dividend rates are determined	Investment strategy for investments backing participating business	How various sources of surplus are shared between the company and policyholders	Treatment of expenses overruns	Approach to reinsurance	How asset shares are derived and used			
7. Is your internal policy document available to policyholders?	Yes/No	Yes	No							

Appendix: Full survey (continued)

QUESTIONS	CHOICE OF ANSWERS	ANSWER								
		1	2	3	4	5	6	7	8	9
8. Is there an individual/ group that has responsibility to advocate for participating policyholder's interests?	Yes/No	Yes	No							
9. Who is the policyholder advocate?	Select only one, with an option to specify 'other'	Signing actuary/ appointed actuary or equivalent	The board	A committee of the board (for example, a "with-profits" committee)	An independent policyholder advocate	Other (please specify)				
10. Does your company have an expression of what constitutes policyholders' reasonable expectations ("PRE")?	Yes/No	Yes	No							
11. What are the most important influences on PRE?	Select up to two	Policyholder illustrations	The macroeconomic environment	Historic bonus/ dividend rates	Competitors	Regulations				
12. Does your company use asset shares to manage policyholder payouts?	Yes/No	Yes	No							
13. 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 guarantee costs	Smoothing adjustment	Cost of capital charge		
14. Which of the following best describes how your company uses asset shares to manage policyholder payouts?	Select only one, with an option to specify 'other'	Asset shares are compared with bonus reserve valuation (BRV) reserves and if within an acceptable range then bonus rates are left unchanged.	Asset shares are compared to current payout levels, and terminal bonuses are actively adjusted to bring payouts in line with asset shares (possibly also taking into account some smoothing).	Other (please specify)						
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)					

Appendix: Full survey (continued)

QUESTIONS	CHOICE OF ANSWERS	ANSWER								
		1	2	3	4	5	6	7	8	9
16. Are participating policies written into a segregated fund?	Select only one	Participating policies are written into the single unsegregated insurance fund with no notional separation from other lines.	Participating policies are written into the single unsegregated insurance fund, but assets backing them are notionally separate from other lines.	Participating policies are written into a segregated participating fund						
17. 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 decline in relation to the rest of the business						
18. What are the main features of participating products that you believe make it popular with customers?	Select up to two	Security provided by guarantees	Investment return potential	Concept of profit sharing, such that policyholders share in any good experience of the fund	Product type is well known by customers, who are more comfortable with it than other new products.	Product type is attractive to advisors, who promote the product	Smoothed investment returns			
19. 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	Misselling of non-guaranteed benefits	Low interest rates/poor investment returns	Other product offerings, e.g., unit linked				
20. 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		

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