ZURICH®

Frequently Asked Questions (FAQ) For Participating Policyholders

1. **What is a participating policy?**
   A participating policy enables you to share in the profits of a life insurance company. These profits are pooled together for all participating policies and are managed separately in a standalone fund. Profits that are allocated to the participating policyholders are usually in the form of reversionary bonuses or cash bonuses/dividends. The participating policy also usually provides other benefits which are not linked to the company's profit performance such as interim cash payment, cash surrender value and base coverage sum assured. Such benefits are deemed as guaranteed and those linked to profit performance are termed as non-guaranteed.

2. **These bonuses are all termed as non-guaranteed. What does that actually mean to policyholder and how does that compare to bonuses/dividends illustrated at point of sale?**
   The actual payment of these bonuses or dividends are not cast in stone and can increase or decrease depending on the operating and investment results experienced by Zurich. Bonuses / dividends illustrated when you purchased your policy provide a range of expected profit sharing results and are based on historical performance. However, past profit performance does not guarantee future investment outlook. Thus, such bonuses illustrated are not guaranteed. On the other hand, the benefits which are illustrated as guaranteed in your policy schedule will always be paid out regardless of Zurich's performance.

3. **What are reversionary bonuses or cash bonuses/dividends?**
   - **Reversionary Bonus**: This non-guaranteed bonus is allocated and added to the sum assured of a participating policy, usually on an annual basis. Once allocated, they are guaranteed, provided you continue to pay the premiums as defined in your policy contract. In addition to the sum assured, these bonuses are payable on policy maturity, or in the event of untimely death of the life assured. However, if you choose to surrender your policy, you may not receive the full amount of the allocated bonuses. The amount of the bonuses payable may be significantly lower compared to those payable if you keep your policy until maturity, or on earlier death.

   - **Cash Bonus / Dividends:** This non-guaranteed bonus is determined annually by Zurich. Once allocated to your policy, you will usually have the option of withdrawing the cash bonus or leaving it with Zurich to accumulate with interest at a non-guaranteed rate (ie the accumulation rate). This accumulation rate will be determined annually by Zurich and is generally benchmarked to be competitive against fixed deposit rates of financial institutions.

   - **Terminal Bonus / Dividends:** In addition to the above, this non-guaranteed bonus may be payable when your policy ends – upon death, maturity or if you choose to surrender your policy. The terminal bonus is usually designed to give policyholders a fair share of the past operating and investment results experienced by Zurich and this can make up a significant portion of the final payout. This usually applies to either reversionary bonuses or cash bonuses/dividends type of policies.

4. **How are bonuses/dividends determined?**
   These bonuses are not guaranteed, and they are determined by Zurich based on the operating and investment results experienced. Operating results refer to cost incurred by the participating fund to pay for policy benefit payments on death, surrenders and for expenses incurred to run the fund while investment results are the result of the investment returns earned on the invested assets supporting the fund. If for example the investments have performed extremely well over the past year, Zurich may be able to pay a higher bonus than originally projected. On the other hand, if the investments have performed poorly, Zurich may only pay a lower bonus, or it may not be able to pay a bonus at all.

5. **In certain years, the investment returns are good/poor but there was no adjustment to bonuses. Why is that?**
   The bonuses paid are 'smoothed' over time to a certain extent. This means that, in years where Zurich has experienced good operating and investment results, the company may hold back some of the profits and use them to top up bonuses in years with poorer results. This is a feature unique to participating policies. This means that Zurich will try to even out the payout to policyholders when results have not been so favourable so as to minimise to a degree, year-on-year volatilities for such payouts. However, smoothing does not give you complete protection against poor results. If poor results persist or continue over several years, Zurich may have no choice but to reduce bonuses to reflect the overall poorer result and vice versa.

6. **Why is my maturity value different for two exact policies that I bought one year apart?**
The bonuses determined and declared each year is dependent on the profit performance as well as smoothing effect year on year. Thus, bonuses in a particular year may be adjusted when it becomes unsustainable from persistent poor results over several years.

7. **Are the recent poor results a consequence of mismanagement by Zurich? Why can't Zurich subsidise for the poor performance and maintain bonuses as illustrated?**
The bonuses illustrated for many of these policies were sold prior to the Asian financial crisis era, where prevailing interest rates then were much higher. Global market conditions will impact all insurance companies, and similarly Zurich has been affected by the subsequent low interest rate environment and stock market deterioration which resulted in low returns on assets. Thus, following from the Asian financial crisis era, under current prevailing conditions, these bonus rates originally illustrated are no longer sustainable. Nonetheless, as part of the acquisition of MAA by Zurich back in 2011, Zurich has supported the Participating Fund by up to RM 441 million and has since agreed to forego any future profits from these participating policies. Moving forward, Zurich has set appropriate governance and controls where the company is now is a better position to manage the fund prudently and will strive to re-evaluate the bonus year on year based on the profit performance.

8. **What measures or strategies have Zurich put in place to ensure that the fund is managed in the best interests of policyholders?**
Zurich has established a governance model known as the Principles and Practices of Financial Management (PPFM) of the Participating Fund. This document lays down the framework on how Zurich will manage the Participating Fund to ensure customers are treated equitably. Part of the measures and strategies in the framework include a bonus policy, investment management strategy, smoothing principles, etc. You can refer to the Zurich website to understand more on the PPFM.

9. **What is Critical Year Option?**
Critical Year is an option for Participating policyholders allowing them to utilize their cash surrender values, prior years declared reversionary bonuses or accumulated cash bonuses/dividends as well as future non-guaranteed bonuses; to pay for future premium payments. It is indicated during point of sale as a non-guaranteed and indicative future policy year whereby policyholders are not required to directly pay premiums any longer to keep the policy in-force. BNM has disallowed the sale of par policies using the critical year option since 2000.

10. **Why do I have to keep paying premiums beyond the Critical Year illustrated at the time I bought the policy?**
The Critical Year indicated during point of sale is dependent on a few factors, such as (i) the levels of future cash bonuses / dividend declared each year and (ii) the annual accumulation rate applied on these cash bonuses / dividends, both of which are non-guaranteed. It also assumes no other policy adjustments such as changes in sum assured, utilisation of any policy loans, addition of riders, bonus withdrawals, etc. are done. Thus, should there be any changes to any of the factors, there is a strong likelihood that the critical year originally illustrated will not materialise and there may be insufficient monies left to fund future premiums until maturity.

11. **If I opt to continue paying the premium, for how much longer do I have to make payments?**
Products such as these were created as long term insurance plans. Therefore, we highly recommend that you continue to pay the premiums until policy maturity or until the end of the premium payment term to ensure that you continue to remain covered.

12. **What other options do I have?**
As we do not advise that you surrender your policy, you have a few options to choose from:
    i. Keep your policy in force by reducing the amount of Sum Insured (SI) which lowers the premium amount
    ii. Convert your policy to a Reduced Paid Up (RPU) policy
    iii. Convert your policy to an Extended Term Insurance (ETI) policy
    iv. If the insured is a minor, change the ownership to the insured child when he / she starts working. The new policyholder (applicant) may be able to continue with the premium payment.

13. **What is a Reduced Paid Up (RPU) policy and how can it benefit me?**
A Reduced Paid-up (RPU) is a policy option converting the current participating policy to a non-participating policy. Under this option, future premium payments will no longer be required and all other benefits will be terminated. The new policy will continue with a reduced sum assured that will usually be payable on death or maturity. The reduced sum assured will depend on the available cash value available on your policy upon choosing this option. The benefit of this option is continuation of insurance protection as per the original policy term albeit at a lower sum assured.

14. **What is an Extended Term Insurance (ETI) policy and how can it benefit me?**
An Extended Term Insurance (ETI) is a policy option converting the current participating policy to a non-participating policy. Under this option, future premium payments will no longer be required and all other benefits will be terminated. The sum assured will remain the same as per the original policy. The duration of the plan will depend on the available cash value available on your policy upon activating this option. The benefit of this option is continuation of insurance protection as per the original policy sum assured but usually for a shorter term. If there is sufficient cash value to continue the policy until the original policy term, any remaining cash value will be refunded.