# Principles & Practices of Financial Management – Participating Fund

This document briefly explains how the Participating Fund works and will help you when reviewing your insurance and investment choices.

**Section 1: What does this document cover?**

It explains how the Participating Fund works and how this affects what you will get back from your plan.
We closed the fund to new policyholders and new master schemes from 2006 and we are currently only managing the in-force policies.

**Section 2: What is a Participating Fund and how does it work?**

A Participating fund shares out its profits and losses to policyholders whereby policyholders are active participants in the fund's performance, claims experience and cost of administration and hence, the term participating.

After taking any initial charges from your premium, we pool your money with that from other participating policyholders in this standalone fund. Each policyholder contributes to the fund and will share in both the returns and applicable payouts. Individual returns will depend on the nature of your policy and when you started the policy with us.

Profits that are allocated to the participating policyholders are usually in the form of bonuses. The participating policy also usually provides other benefits not linked to the profit performance such as interim cash payment, cash surrender value and sum assured. These benefits are referred to as guaranteed, and those linked to profit performance, termed as non-guaranteed. Pre-2008, the profits from the Participating fund was shared 90:10 between policyholders and Zurich shareholders. However, Zurich shareholders have stopped receiving any profits from the fund since 2008, and have also agreed to forgo any future profits arising from the fund in order to maximize policyholders' returns.

This fund invests in various assets such as fixed and variable interest securities (types of loan to governments or companies), company shares, property and cash. A more detailed description is given in section 5(a). How much of the fund is invested in each will vary over time.

A large part of the fund and its investment returns cover the plan benefits we have already guaranteed depending on your plan type. Each year, we will keep you informed on how the fund is invested. You can also find the most recent update on our website.
After an allowance for administration, claims cost and investment tax, returns are 'smoothed', which means we even out some of the ups and downs in performance over the time your policy was inforce. These smoothed returns are applied to your plan through a system of bonuses.

**Section 3: How is the fund governed?**

The Board of Directors are responsible for managing the Participating Fund business in a way which is fair to all stakeholders. The principles and practices we use to make sure our customers are treated fairly are set out in this Principles and Practices of Financial Management (PPFM) document. To manage the fund fairly, the Board seeks guidance from an experienced staff from within the company, mainly the Appointed Actuary to advise on the fund's bonus rates and direction each year. The duties of the Appointed Actuary with respect to the Par Fund are clearly defined in Bank Negara Malaysia (BNM) guidelines.

The Appointed Actuary, who acts as a financial guardian of the insurance company in overseeing responsible and fair management of all its funds, is a qualified actuary appointed by the Board with the approval of Bank Negara Malaysia (BNM). Thus, part of the Appointed Actuary's duties involves recommending changes to the PPFM if required. This will require approval from both the Board of Directors and BNM, which in turn, serves to provide another level of independence and assurance on the equitable treatment across all stakeholders. Any changes to the PPFM will be communicated accordingly to policyholders but it is expected to occur infrequently.

From 1st July 2016, BNM also requires an independent review to be carried out at least once every three years by persons with sufficient expertise and relevant experience, to provide the Board with an assessment of how actual practices are aligned with the PPFM, the effectiveness of the PPFM policy in practice, as well as recommendations for improvement to the policy.

## Section 4: What are bonuses?

There are two types of bonus we may add to your plan. They are:

**Regular bonuses**, which are either in the form of reversionary bonuses or cash dividends. We usually declare our regular bonus rates once a year, but this does not mean we will always be able to add a regular bonus. We will inform you each year what the regular bonus rate is through your annual statement.

Reversionary bonuses are guaranteed once added and will increase the level of guaranteed benefits on your policy; and these cannot be reduced once declared provided there's no amendment to the policy. Cash dividends on the other hand are cash payments given to policyholder where they have the option to cash out this bonus or leave it with us to accumulate separately in the Par fund on a specified accumulation rate which is reviewed and updated annually. This accumulation rate is not a bonus and is not guaranteed.

The main things we consider in setting regular bonus rates are:

- The fund's performance,
- The plan's guaranteed benefits,
- Bonuses already added,
- Our view of future investment returns after tax,
- The allowance for administration and claims costs.

**A terminal bonus**, which we may add when your plan ends. In deciding the amount of any terminal bonus we will consider:

- The actual performance of the fund over the time you invested in it compared with the guaranteed benefits,
- The length of time you were invested in the fund,
- Expected investment returns in the coming year,
- An appropriate share of the estate. The estate is the part of the fund not required to support the fund's expected payments, and currently there is no estate in the fund as all additional monies have been channelled to support policyholder's benefits,
- Recent payout values (as we try to avoid large fluctuations from year to year)

We review any terminal bonus rates at least once each year. They could change depending on your plan type and would only be added when your plan ends.

In addition, there are also interim bonus rates. These are specific to policies where claim arises between bonus declaration rates. They are usually set equal to the previous declared bonuses rates on each particular year but are subject to change based on interim fund performance in that year. Overall, bonuses will vary depending on the nature of your policy and the non-guaranteed structure behind it. Interim bonuses are usually lower on surrender as this is a selective event which is determined by the policyholder, unlike death.

## Section 5: What affects my plan value?

Many factors affect what you will get back from your plan. The main ones are explained below:

a) Investment performance
This is normally the biggest factor affecting returns and depends on where money is invested.

We hold some higher-risk investments, such as shares, because we expect them, in the longer term, to give higher returns than the lower-risk investments we hold to cover the guarantees we have given. The lower-risk investments include fixed and variable interest securities, issued by governments, companies, or institutions and cash deposits that earn interest. Lower-risk investments are less subject to the extreme ups and downs in value experienced by shares.

The guarantees we have given to other participating policyholders can affect what you get back as the mix of investments has to take into account the level of guarantees within the fund. We review the choice of investments regularly to make sure the balance remains suitable for the overall fund.

Which types of investment we choose to hold may be affected by market conditions and our ability to buy and sell different assets at values we believe are fair in the long-term.

b) Smoothing
This is a special feature of participating fund investing which reduces the effect of investment fluctuations. As history shows, returns from shares and property may do well one month and fall significantly the next. Smoothing simply means we even out short-term ups and downs by sometimes holding back returns and sometimes paying out more than the fund returns. This helps prevent bonus rates having to change frequently.

In the long term we can only pay out what the fund's assets achieve. We will do this by increasing guaranteed payouts when it is prudent and adding a terminal bonus when your share of the fund is greater than the guaranteed amount.

c) Administration and claims cost
In calculating any regular bonus we include the cost of administration and claims. The fund pays these and if they turn out to be higher than we estimate this would reduce future bonuses.

The claim costs include the guaranteed benefits paid out such as death and critical illness claims, surrender value and maturity value of policies as part of the insurance pool.

d) Tax
Any tax the fund pays will reduce what you get back. We will spread the burden of tax fairly throughout the fund.

e) Guarantees to you
We guarantee the minimum amount you will get back from your participating policy on death, surrender or a chosen end date. The chosen end date is also known as the maturity date, normally applicable to endowment policies. For this document, we refer to it as the guarantee date.

The guaranteed amount is shown as the accumulated benefit on your annual statement.

f) Long-term views on managing the fund
Our aim is to fairly share out the assets of the fund including the estate. We will achieve this by including an appropriate share of the estate when deciding the amount of any terminal bonus.

As the fund is closed, no new policyholders or premium increases are accepted, so the fund will reduce in size over time as plans end. We plan to manage this reduction in a controlled way and will provide alternative options to policyholders in the future, if these are better in terms of value with regards to your policy.

**Section 6: What if I decide to end my plan?**

You may decide to end your plan on a date that is not the guarantee date by surrendering your plan earlier. If you do this, we will still give you a fair value based on your guaranteed surrender value. However, there is a possibility you could get back less than you invested, as you may not be eligible in full for certain non-guaranteed terminal bonuses.

**Section 7: Where can I find out more?**

You can read full details of how we manage the fund in this technical guide called ‘Principles and Practices of Financial Management’ (PPFM) from our website. The website also includes additional information and answers, the questions we are often asked (Par Fund FAQ) and a simplified Par fund brochure (Participating Fund Report). If you are still unclear about your investments in the participating fund, you should talk to an adviser or contact us directly through email or our Par customer hotline.

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