

Milliman Fulfillment Ratio Index

Understanding Fulfillment Ratio

Life insurance companies in Hong Kong are required by the Insurance Authority, through the Guideline on Underwriting Long Term Insurance Business (Other than Class C Business) (commonly referred to as “GL16”), to publish fulfillment ratios for their participating products on an annual basis starting from January 2017, as defined:

Either aggregate accumulated bonuses (for annual dividends and reversionary bonuses) or aggregate payout (for terminal dividends).

Fulfillment Ratio =

Actual aggregate non-guaranteed benefits

Aggregate non-guaranteed benefits illustrated when customers purchased the policy

Types of non-guaranteed benefits typically offered by participating products in Hong Kong



ANNUAL DIVIDENDS

Declared and paid out as cash at the end of each year. Policyholders may choose to leave these on deposit with the company to earn interest. The actual interest credited will also affect the fulfillment ratio.



REVERSIONARY BONUSES

Bonuses declared as a permanent addition to the basic sum assured of the insurance policy, which cannot be taken away once declared.



TERMINAL DIVIDEND

Typically paid at maturity, on death and surrender of the policy through a lump sum. It is sometimes referred to as the “final bonus”.

The Milliman Fulfillment Ratio Index (“Index”)*

Calculated annually by Milliman, the Index covers Hong Kong life insurance companies representing a significant market share as measured by in-force premiums (>85% in 2018).



Top 10 life insurance companies in Hong Kong are included based on in-force premiums. The companies included are reviewed annually.



Six material participating products offered by each of the selected companies are analysed. Product types include savings, critical illness, annuity and endowment, with a balance between active and shelved products.



All policy years are considered to better reflect the condition of different cohorts. A simple average is taken across the fulfillment ratios of all policy years available.

- The Index reflects actual dividends and bonuses aggregated up to, or paid out in, a calendar year. Some dividend / bonus adjustment decisions made in the same calendar year may not be reflected until the year that the annual dividends / bonuses or terminal dividends are actually paid out.
- It is observed that companies tend to implement dividend cuts for older products rather than for their key products open to sale. The Index is calculated by considering both key new products and older products in order to capture any material changes.

Note *: The Index covers participating products only and does not consider universal life products.

The Milliman Fulfillment Ratio Index in reporting years 2017 and 2018

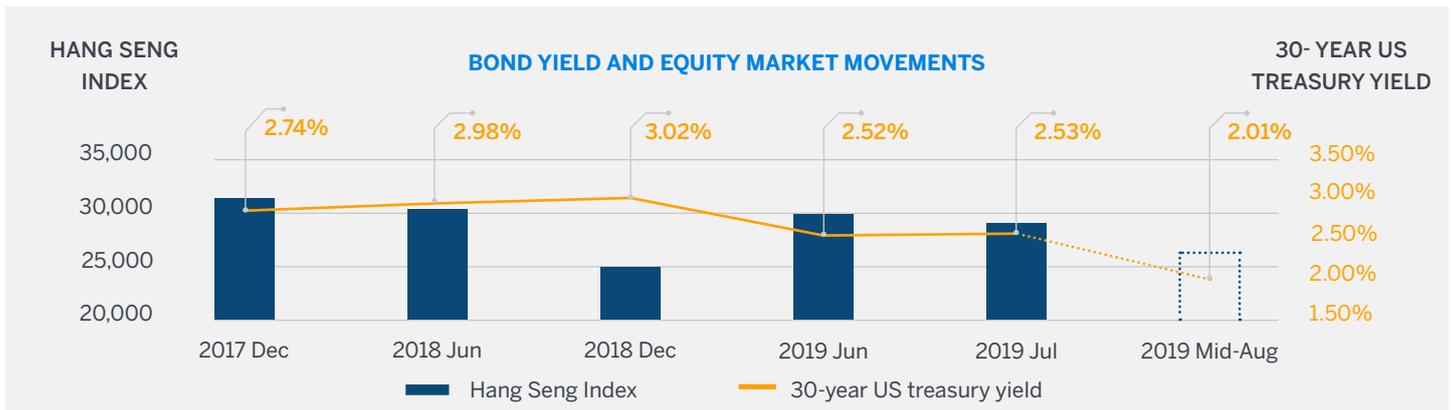
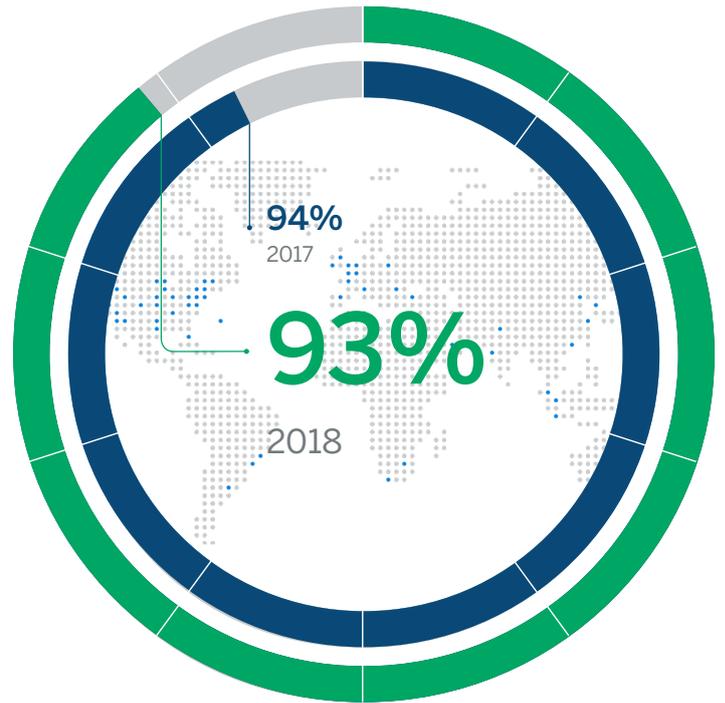
COMMENTARY

- The Index remained relatively stable in 2018 (93%) compared to 2017 (94%).

- Although there have been some fluctuations for individual companies, these changes have roughly offset each other in aggregate.

Fulfillment ratio key drivers

- Decisions on dividend / bonus declarations are typically based on a number of factors including investment outlook, actual investment performance, operating experience, and competitive pressure. The investment-related factors tend to be systematic, while the others can be more company-specific.
- Although the 30-year US Treasury yield increased slightly during 2018, significant falls in US Treasury and Hong Kong government bond yields in year-to-date ("YTD") 2019 may negatively affect companies' long term investment outlook. In addition, the unfavorable equity market performance in Hong Kong in 2018 and YTD 2019 may also lead to future bonus cuts.



- Apart from the decision by companies to adjust bonus scales, which is a key driver of the changes in fulfillment ratios, there are other factors to consider such as:
 - The fulfillment ratio of policyholders who have experienced bonus cuts is likely to keep declining over time due to compounding effect as they continue to receive more of the reduced bonuses.
 - For policyholders leaving cash bonuses with insurers to accumulate interest, the interest generated brings the

fulfillment ratio closer to 100% as many insurers have left deposit interest rate unchanged in recent years.

- Older cohorts / products can be left out of disclosures when there is no new business for that cohort for 5 years, causing fluctuations.
- Bonus revisions are usually declared in the middle of a year whereas fulfillment ratios are disclosed by calendar year, causing different results among policyholders who purchase their insurance plans in the same year.

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