澳門金融管理局
AUTORIDADE MONETÁRIA DE MACAU

Insurance Intermediaries Qualifying Examination

Life Insurance Examination

Study Notes

2022 edition

Study Notes for Life Insurance Examination

Update

This Update serves to set out the textual updates to the “Study Notes for Life Insurance Examination (2001 Edition)” in response to developments in the insurance industry and local insurance laws and regulations. Chapter 6 – Introduction to Private Pension Fund Ordinance has been removed, and the following contents are added:

5.2.6	Distributions of Policy Dividends
5.2.7	Benefit Illustration for Life Insurance Products (Other Than Class C Products)
5.2.8	Important Facts Statement and Benefit Illustration of Premium Financing for Life Insurance Products (Other Than Class C Products)
5.2.9	Issuing Insurance Policies to Nonresidents in the Macao Special Administrative Region
5.2.10	Important Facts Statement for Mainland Policyholder Purchasing Life Insurance Policy in Macao

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PREFACE

These Study Notes have been designed to prepare candidates for the Insurance Intermediary Qualifying Examination in the subject of "Life Insurance". They are intended to give candidates a preliminary introduction to the subject of Life Insurance, and the examination will be based upon these Notes. If the candidates want to learn more about a particular topic, they can refer to the reference materials indicated in the Study Notes.

Some parts of these Study Notes are taken reference, with the kind consent of the Hong Kong Insurance Authority, from the text prepared for the purpose of "Insurance Intermediaries Quality Assurance Scheme". Appreciation is also due to the Macau Insurers' Association, Macau Insurance Agents and Brokers Association, and Federation of Macau Professional Insurance Intermediaries for their valuable advice and assistance in the preparation of these Notes.

It should be noted that new editions or amendments of the Notes will be published from time to time where necessary. Although we have exercised diligence in the preparation of these Notes, errors or omissions may still be inevitable. We would appreciate your feedback on these Notes, in order that improvements can be made in the next edition or amendments of these Study Notes.

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NOTE

If you are taking this Subject in the Insurance Intermediaries Qualifying Examination, you will also be required, unless exempted, to take the Subject "**Principles and Practice of Insurance**". Whilst the examination regulations do not require you to take that Subject first, it obviously makes sense to do so. That Subject lays a foundation for further studies and many of the terms and concepts found in that Subject will be assumed knowledge with this Subject.

1. INTRODUCTION TO LIFE INSURANCE

1.1. DEFINITION OF LIFE INSURANCE

In the first of an excellent series of textbooks produced by the U.S. Life Office Management Association Inc. (**LOMA**), life insurance is defined as follows:

"Life insurance provides a sum of money if the person who is insured dies whilst the policy is in effect."

Anybody who has some knowledge about life insurance will be tempted to say "Yes, BUT.....". In other words, surely this is too brief an explanation for a financial service that provides a very sophisticated range of savings and investment products, as well as mere compensation for death. Nevertheless, this is apt for the first chapter on life insurance for beginners.

The definition captures the original, basic, intention of life insurance: i.e. to provide for one's family and perhaps others in the event of death, especially premature death (i.e. death occurring at such a time that financial hardship will likely be caused to the dependants). Originally, policies were for short periods of time, covering temporary risk situations, such as sea voyages. As life insurance became more established, it was realized what a useful tool it was for a number of situations, which would include:

(a) Temporary needs/threats: the original purpose of life insurance remains an important element in life insurance and estate planning, as things like children's education etc. occupy responsible people's thoughts.

(b) Savings: providing for one's family and oneself, as a long-term exercise, becomes more and more relevant as society evolves from a tribal, clan, family orientated community to relatively affluent individual independence.

(c) Investment: can be defined as a process of purchasing an asset, with an expectation that it will in the future provide an income or appreciate. The accumulation of wealth and safeguarding it from the ravages of inflation become realistic goals as living standards rise.

(d) Retirement: provision for one's own later years becomes increasingly necessary, especially in a changing cultural and social environment.

So our purpose, as we begin this study, is not so much to remember certain facts, but rather to understand something of the fundamentals of long term (life) insurance, and to appreciate its role in a modern society.

1.1.1. Needs for Life Insurance

Whilst **1.1** above outlines the developing appreciation of the many uses of life insurance, the modern scene tends to look upon available life insurance products from the perspective of meeting various needs. These we may think of as:

(a) Personal needs:

- (i) dependants living expenses;
- (ii) final (end of life) expenses;
- (iii) education funds;
- (iv) retirement income;
- (v) mortgage repayment fund;
- (vi) emergency funds (usually needed to meet unexpected expenses);
- (vii) disability income.

(b) Business needs:

- (i) key persons;
- (ii) business owners;
- (iii) partnerships;
- (iv) employee benefits.

1.2. PRINCIPLES OF LIFE INSURANCE

In the Core Subject for this Insurance Intermediaries Quality Assurance Scheme **"Principles and Practice of Insurance"**, the principles of insurance were studied in detail. By way of reminder, but not detailed comment at this stage, these principles are:

a) Insurable Interest: the legal right to insure;

b) Utmost Good Faith: a duty to reveal material information actively;

c) Proximate Cause: determining the effective reason for a loss in the context of insurance claims;

d) Indemnity: the insurer providing an exact financial compensation;

e) Contribution: insurers sharing an indemnity payment;

f) Subrogation: the indemnifying insurer taking over and then exercising the insured's rights of recovery against third parties.

1.2.1. Insurable Interest

In simple terms, insurable interest is that relationship with the subject matter (the insured, in the case of life insurance). The insured's life, health, or physical integrity is the subject matter of insurance. In insurance for the account of a third party, or for the account of whom it may concern, it is the applicant who has the duty to perform the obligations arising from the contract, with the exception of those that can only be performed by the insured himself. This principle is derived from the Macao Commercial Code and we should pay attention to the following points:

(a) If it is not declared in the policy that insurance is for the account of a third party, it shall be considered as contracted for the account of the person who made it.

(b) The life of a person can be insured by the person himself, or by a third party. If the applicant is not the insured, the latter must give his consent in writing.

(c) Rights arising from an insurance contract benefit the insured; the applicant, even if he is in possession of the policy, cannot exercise these without express agreement from the insured.

(d) If the insured is a minor, the consent mentioned in paragraph (b) is given by his legal representatives, in accordance with general rules; such consent shall be ratified by the minor.

(e) It is not permitted to conclude an insurance contract for the case of death if the insured is younger than 14 years old, or if he has been declared lacking in legal capacity by a judicial decision that can no longer be appealed.

When is the interest needed?: this is a key question, and very important consequences flow from its answer. The answer is that insurable interest is **only** needed when the contract **begins**, and becomes irrelevant thereafter.

1.2.2. Duty of Disclosure

This concerns another important insurance principle, that of **utmost good faith**. Simply expressed, utmost good faith requires the applicant to disclose all **material facts**, whether they are requested by the insurer or not. A **material fact** is one that would influence the judgement of a prudent underwriter in fixing the premium, or determining whether he will accept the risk. Some points to note:

(a) **What to disclose**: The applicant should disclose all information that he/she is aware of or should reasonably be aware of, that can affect the risk assessment to the insurer in a complete and clear manner when establishing the contract.. Clearly, the insurer wishes to know all important facts, but you **cannot** be expected to disclose what you reasonably cannot be expected to know. Some medical conditions, for example, may be easily recognizable to qualified doctors, but the average layman cannot be expected to self-diagnose and reveal such things.

(b) **Non-medical application**: if the insurance is arranged without a physical examination of the applicant, the insurer will normally have great difficulty in alleging non-disclosure of a material fact not covered by questions on the application or personal physician's form.

(c) **Medical application:** if the insurance is arranged with a physical examination of the applicant, the insurer cannot hold against the applicant negligent omissions or mis-diagnosing by the medically qualified person concerned.

(d) **Medical Tests**: the insurer's requests to supplement information supplied verbally with reasonable medical examinations or tests are normally met, but great care must be taken not to breach the "Personal Data Protection Act". The act stipulates that the entity or its representative who is responsible for the processing of personal data should provide the purpose of the processing to the data subject from whom data relating to himself is collected. According to the act, in order to guarantee the data subject that such data will be processed fairly, the data subject shall have the right of access, the right to rectify such data, and conditions for exercising these rights, provided they are necessary.

(e) **Breach of the duty on the part of the policyowner**: technically, this constitutes a breach of utmost good faith, which normally renders the contract voidable by the insurer. If fraud is involved, in Macao, the insurer may void the contract. But with most policies in Macao, regard has to be taken of the **Incontestability Clause**. The clause stipulates that the insurer will not contest the policy after it has been in force for a specified period (contestable period), unless there is proof of fraud on the part of the policyowner. (see **4.2**)

1.2.3. Other Insurance Principles

(a) **Proximate cause:** this principle is concerned with the identification of the dominant, effective cause of the loss being claimed for under the insurance. The principle does apply to every class of business, but it is very likely to have rather less significance with life insurance partly because of the minimal use of exclusions. The application of proximate cause is very much concerned with different kinds of perils (i.e. causes of loss):

(i) Insured Perils: are those which are covered by the policy. General insurance policies may specify the perils which are covered, and one of those must be the proximate cause of the loss or it is irrecoverable. In life insurance, the cause of death is not critical, unless a suicide exclusion clause operates or an accidental death benefit rider applies.

(ii) Excepted (or Excluded) Perils: in general insurances all policies will carry some exclusions. If one of these operates with a claim, the insurer is not liable for the whole of or part of the loss, depending on the specifics of the exclusion. Life insurance policies will seldom have exclusions (but see Note 1 below).

(iii) Uninsured Perils: these are causes of loss which are not included but are also not excluded, for example water damage with a fire insurance. If property is damaged by water (e.g. by rain) with no other cause involved, the damage is not covered. But if the water damage is proximately caused by an insured peril (say fireman fighting a fire with water hoses), the water damage is covered. Such complexities are unlikely to arise with life insurance claims.

Note: 1. Suicide is a life policy exclusion, and the principle of proximate cause will be important tool to determine whether death arose from suicide or not. However, even here the principle does not have full impact, because suicide is only excluded for a limited time period (suicide exclusion period) (see **4.12**).

2. We may conclude that the principles of insurance, especially those concerned with claims, have less application in life insurance than in general insurance.

(b) **Indemnity:** this means an exact financial compensation for the loss sustained and is very important in most General insurance policies. As far as life insurance is concerned, however,

(i) it is immediately obvious that the policy proceeds in no way pretend to (or can) represent an exact financial compensation. That is why life insurances are called benefit policies, not indemnity policies;

(ii) it is impossible to over indemnify. It is because the insurable interests (closely linked with indemnity) in the majority of cases is unlimited;

Note: Every life insurance claim is a "total loss", in the sense that the full sum insured is payable. The actual payment, however, may be more than the sum insured in some cases, e.g. where policy dividends (or maturity bonuses) apply, or where death is from an accident and accidental death benefits have been added to the policy.

(c) **Indemnity Corollaries**: a corollary is a sub-principle and indemnity has two corollaries, Contribution and Subrogation.

(i) **Contribution**: in most General Insurance classes, if by some chance a person has more than one policy covering the loss (called Double Insurance in marine insurance) he does not get paid twice. Each policy contributes to (shares) the loss rateably.

Life insurance policies are normally not subject to the principle of indemnity, so it is quite normal for a person to have more than one life policy and each must pay in full upon the insured event happening.

(ii) **Subrogation**: this relates to the right of the insurer who provides an indemnity to take over any remedies the insured possesses against third parties, to seek to recover his payment to the "policyowner". This does not apply to life insurances. (Except for medical and hospitalization expenses borne by the insurer in accidents caused by a third party).

If, for example, a third party negligently damages a person's car (which has comprehensive cover), the person's motor insurer must pay but can attempt to recover its payment from the third party. In that same accident if an innocent victim in the car is killed, his life insurer must pay, but the life insurer has no right of recovery from the third party.

1.3. CALCULATION OF LIFE INSURANCE PREMIUM

The premium required to insure a given life may have to take into account individual features which make the risk better or worse than the average for a person of that age and sex. That, however, is essentially a matter of underwriting, which we shall consider in more detail in **5.3**. Life insurance **premium rates**, which may be thought of as the normal or standard premiums applicable according to age and sex, are subject to certain common features considered below:

1.3.1. Pricing factors

The classic criteria usually applied to life insurance premiums are that they should be:

(a) adequate: so that the insurer will have money to pay the benefit and meet other obligations under the contract; and

(b) equitable (fair): so that each policyowner is paying an amount in line with the risk and contracted benefits.

(c) To achieve these criteria, a number of factors must be taken into account in the course of rating.

1.3.1.a. Mortality, Interest and Expenses

(a) **Mortality**: perhaps more accurately phrased as the Rate of Mortality, this indicates the rate at which insured lives are expected to die. Whilst this sounds very morbid, it will be immediately obvious that this is absolutely at the heart of life insurance premium calculation. To know, on average, when your insured may be expected to die is a crucial factor in determining the correct premium to charge.

Of course, individual lives may live much longer or shorter than the average, but following the "law of averages" (which is sometimes called the "law of large numbers") reasonable predictions and calculations can be made. These are greatly facilitated by the use of **mortality tables**, which are published tables showing the expected rate of mortality at any given age.

As mentioned above, individual risks may call for special terms and consideration, but that is an underwriting matter. Premium rating using mortality tables merely deals with normal risks and normal expectations.

(b) **Interest**: in very simple terms, life insurance involves collecting money now, and at specified intervals, to provide for a benefit at some time or upon some event in the future. This, by definition, means we have some **time**, and as the old saying goes "time is money"!

How much time we have, on average, largely concerns (a) above. The fact that we have some time means we have an opportunity for **investment**. The interest to be earned on invested premiums is another crucial factor in determining premium rates. If a particular insurer is anticipating above average returns of investment, it can charge lower premium rates than a fair number of its competitors, and/or make more profit for its shareholders.

Note: The above two factors combined will produce what is called the **net premium** (sometimes called the **pure premium**), i.e. the money required to be collected from the policyowners just to meet death claims arising under normal statistical expectations. But there is more to consider.

(c) **Expenses**: the **net premium** has to be subject to a loading (surcharge or additional sum) to take care of all expected and possible expenses. These will include all internal operating costs, commissions, tax and overheads to which any business is subject. With life insurance there is also the possibility (however remote) of unusual mortality rates from some new disease or other disaster - and existing premiums **cannot** be increased later to deal with changed circumstances. Loading the net premium will include an amount to cover that kind of contingency.

Note: The **loading** added to the **net premium** produces the gross premium, which takes into account all three basic factors mentioned above.

1.3.1.b. Other Factors

As mentioned, premiums for existing policies cannot be changed. Life insurance is **long term business**, and this implies that the contract not only is likely to last several years, but also it cannot be cancelled or amended by the insurer without the consent of the policyowner. Therefore, other factors which may arise from time to time can only affect new policy premiums. Some of the influences which might have an effect on life premium rating are mentioned below:

(a) **PAR or NON-PAR**: this is extremely important. One unique feature of life insurance is that one can choose to purchase a "participating" or "non-participating" (**PAR** or **NON-PAR**) policy. Policies which are "participating" are entitled to receive a varying share of (to "participate" in) the divisible surplus (profits) of the insurer, normally on the policy anniversary dates. These are in the form of policy dividends or dividends. Though no policy dividends are guaranteed, participating policies are subject to higher premium rates than equivalent Non-Participating policies.

Note: 1. While U.S. insurers talk of par and non-par policies and dividends, U.K. insurers issue policies which are either **With-Profit** or **Without-Profit**, and declare **bonuses**. The concept is the same, although there are differences between the U.S and U.K. practices. Bonuses are usually reversionary (i.e. payable only when the policy benefit is payable), whereas dividends are payable upon annual declarations. Having said that, reversionary bonuses can be surrendered without terminating the policy (see **1.3.2b(c)(i)** for surrender values). Suppose a whole life policy has earned an accumulated reversionary bonus of £5,000. The policyowner is entitled to an immediate payment out of such value, but only at a discount. Further suppose that according to the insurer's calculation based on factors such as the current age of the life insured and the expected rates of interest, the future bonus value of £5,000 is equivalent to an immediate surrender value of £1,000. Then by surrendering, say, half of the accumulated bonus value, the policyowner will be paid £500 immediately.

2. Not all life insurance policies can be **par** or **non-par**. Term insurances (see **2.1.1**) are normally not on a participating basis.

3. For discussions on distribution of policy dividends, please see **5.2.6**.

(b) **Competition**: no insurer enjoys a monopoly position. What the market is charging cannot be ignored.

(c) **Economic changes**: extended times of affluence or recession will doubtless have an impact on all product prices, including insurance.

(d) **Public health**: abnormal developments in this area (e.g. the prevalence of a certain diseases) cannot be ignored in rating.

(e) **Fiscal changes**: a lasting increase in tax levels must be reflected in higher premium rates.

(f) **Company objectives and marketing strategies**: if a company is determined to increase its market share, competitive premium rating is surely one of the possible marketing strategies.

1.3.2. Pricing system

The natural and level premium systems for life insurance premium calculations might well be described as "ancient" and "modern", for reasons that will be clear shortly.

1.3.2.a. The Natural Premium (Pricing) System

This was the system used by some life insurers in the early days of the business. It was very logical, but it was doomed to failure because of built-in features which virtually guaranteed that it could not work long-term in practice. Its features were:

(a) **Premiums:** these were not to be constant throughout the policy term, but individually calculated each year so that they reflected the natural risk position (age etc.) of the life insured at each policy anniversary.

(b) **Short-term consequences**: with increasing age there is increased mortality risk. Premiums for existing policies therefore increased every year.

(c) **Longer-term consequences**: these, in hindsight, were very predictable and included:

(i) increasing premiums, with increasing age and in later years decreasing disposal resources or earning power of the policyowner, often presented real problems with renewals;

(ii) the system was vulnerable to anti-selection (also known as **selection against the insurer**), whereby the better risks - those in good health and with real prospects of a long life - dropped out of the scheme as it became more expensive, and the bad risks would decide to continue, for obvious reasons. This creates an imbalance of risks, or a failure to satisfy a criterion of the law of large numbers, i.e. the existence of a large, if not infinite, number of homogeneous exposure units in the pool.

(d) **Present day:** the Natural Premium System is no longer practised, at least not for policies which are truly "long-term".

Note: We may be tempted to be scornful of a scheme which we can now see to have such obvious defects. But it is easy to live life in retrospect. Problems and shortcomings usually only appear through experience.

1.3.2.b. The Level Premium (Pricing) System

This is now the norm and its features are described below:

(a) **Basic concept:** by the judicious use of **mortality tables** and actuarial calculations, it was realized that it was possible to quote a premium that would remain level (unchanged) for the duration of the contract, based upon the age, sex and individual underwriting features of the life to be insured. This, of course, assumes that the **death benefit** also remains unchanged.

Compared with the cumbersome and unsatisfactory features of the **natural premium system**, the advantages and attractiveness of such a system are obvious. Therefore, it quickly superseded the old system

(b) **Short-term consequences:** clearly, the level premium system envisages a long-term contract, where an unchanging annual premium will effectively "average out" over the years. In other words, the annual premium is "too much" for the risk involved in the early years, and may be "too little" for the risk involved in later years.

Of course this is a simplification, but it is not inaccurate. From this concept it may be seen that once the initial expenses and costs of setting up the policy have been absorbed, the early "excess" premiums and interest earnings thereon start to create a fund or reserve against the future liability.

In the usual practice of general insurance, the premium is calculated each year and at the end of the year, (if no compensation occurs,) the premium is considered **fully earned** by the insurer. The life policy, under the **level premium system**, soon begins to build up a cash value for the policyowner.

(c) **Longer-term consequences**: some of the implications and products of **(b)** above will be examined in more detail in **Chapter 4**, but we may briefly mention the features that developed from the early years "surplus" premiums found with the level premium system:

(i) **Cash value (**also known as **surrender value)**: When a policy has been in force long enough to "clear" the set-up costs, part of the premiums received – after the risk premium for the past period has been deducted – can be considered to be "not yet earned" by the insurer; it is referred to as a “cash value”. Therefore, when a policyowner cancels a policy that is carrying a **cash value**, there should be a sum of money payable to him, representing a refund of premiums "unearned" by the insurer. This sum is known as “**surrender value**”. Surrender value equals cash value minus surrender charge, a charge that is applicable when a policy is surrendered for its cash value or when a policy, under some plans, is adjusted to provide a lower amount of death benefit.

Note: This is not true for Term Insurances (see **2.1.1**), where the premium is geared only to the risk of death during a specified period of cover. Such policies have no **cash value**.

(ii) **Policy Loan**: the **cash value** is an acceptable collateral security for a loan. Borrowing money from the insurer using the cash value as security is now a right under modern policy terms.

(iii) **Nonforfeiture**: without specific policy provisions to the contrary, a life insurance policy will lapse (i.e. discontinue) if renewal premiums are not paid when due. However, the **cash value**, if sufficient, may be used voluntarily and sometimes automatically under policy terms, to keep the insurance in force (see **4.5**).

(iv) **Paid-up Insurance**: should the policyowner decide that he cannot or does not wish to pay any further premiums, he may, as an alternative to policy surrender, pay up the policy. This means that he is not paying any more premiums and yet the policy stays in force exactly as before (so that a participating policy will continue to yield dividends), except that he is now insured for a lower sum insured/face amount called the “paid-up value”, in line with the net cash value and the premiums saved as a result of his choice. A paid up policy is sometimes referred to as a reduced paid up policy, to reflect the normal fact that the paid up value is smaller than the face amount. This alternative arrangement is largely possible because the premiums paid in the early years of the policy have yet to be "fully earned" by the insurer.

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2. TYPES OF LIFE INSURANCE AND ANNUITY

To the public and perhaps inexperienced insurance intermediaries, there must seem to be a bewildering variety of life insurance contracts. Certainly, it is a sophisticated and well developed market, but a few basic guide rules should prove helpful:

(a) **Basic functions:** it is good to distinguish the various products offered by life insurers by what the products seek to do. Another way of thinking about that is to ask the question "Under what circumstances is/are the **death benefit(s)** payable?". Some basic formats are:

(i) payment on death only if it occurs during a specified period;

(ii) payment on death at any time;

(iii) payment on a specified date **or** on earlier death.

(b) **Basic variables**: some additions/modifications to the above are:

(i) the type of policy (called the plan) may be **convertible**, i.e. able to be **changed** into a different **plan**, at the policyowner's option;

(ii) **renewable**: if originally for a limited time period (e.g. one year);

(iii) **Par or Non-Par**: see **1.3.1b(a)**;

(iv) various **Riders**, i.e. **endorsements**, may be added to the policy to provide additional cover.

(c) **Basic questions:** much heartache and misunderstanding in the whole business of life insurance selling would be avoided if insurers and insurance intermediaries clearly put the following two questions to potential policyowners (and of course acted in accordance with the answers):

(i) “What do you want the insurance to do for you?”, i.e. what is it for?

(ii) “How much premium are you able and willing to pay?”, i.e. what can you afford?

Note: The other basic question “How much life insurance do you need?” is of course important, but this is usually answered by the insurance intermediary rather than the applicant.

Given these important preliminaries, we may now think about specific policy types. We should just say, however, that we shall only be considering an outline of the various covers, so that you may be in a position to identify and broadly distinguish the various types of **plan** available. Professional skill and discrimination can only be obtained through experience.

2.1. TRADITIONAL TYPES OF LIFE INSURANCE

These will consist of the four basic formats mentioned in **(a)** above, although there are many possible variations and combinations of the different types of cover. The major traditional types we shall consider are as follows:

2.1.1. Term Insurance

Such kind of insurance **plan** provides cover for a specified period or term only, and may also be described as **temporary life insurance**. The policy benefit is only payable if:

(a) The life insured person **dies** during the specified period, or term; and

(b) the policy is **valid** (in force) at the time of death.

In the great majority of cases, term insurance plans run their course without a claim. For these reasons, it is the cheapest form of cover available (but, of course, its limitations must be understood).

In theory, the **term** could be for any period of time, even a few hours to cover an aircraft flight, for example. In practice, it is rare to find a term insurance for a period of less than one year.

2.1.1.a. Level/Decreasing/Increasing Term Insurance

(a) **Level term insurance**: this policy plan is perhaps the most popular term insurance. It involves a level (unchange) **death benefit** throughout the policy period. In the event of death during the term, the **face amount** of the policy is payable. The level of annual premium usually remains the same throughout the policy term.

Popular largely because of its simplicity, this is a useful answer to a temporary need which neither increases nor decreases to any significant extent over the period of time involved (perhaps a **loan** which is not being repaid by instalments).

(b) **Decreasing term insurance**: under this plan, the **premium** is level (constant) throughout the term, but the death benefit decreases annually, or at other specified times. Because the benefit is continually decreasing and is payable only on death during the term, this is the **cheapest** form of life insurance available. It is particularly suited for a temporary need which is reducing. Some typical examples are:

(i) **Credit life insurance:** designed to repay the balance of a loan direct to the lender should the borrower die before a full repayment of loan has been made. This plan is usually sold to lending institutions on a group basis to cover the lives of borrowers.

(ii) **Family income insurance**: perhaps linked with other policy plans which provide a lump sum payment on death, a family income plan will pay a stated monthly death benefit to the beneficiaries for the remainder of a specified period (the total amount payable (i.e. monthly benefit x number of payments) is therefore decreasing as time goes by). Suppose a life insured under a 5-year family income plan for a monthly benefit of $1,000 dies at the end of year 4. The plan will pay the beneficiary 12 monthly payments of $1,000 each, totalling $12,000. On the other hand, a death at the end of the 50th month will mean 10 monthly payments of $1,000 each, totalling $10,000.

(iii) **Mortgage redemption (**or '**Mortgage protection**'**) insurance**: a typical mortgage loan is reduced by monthly or other periodic payments. Mortgage redemption insurance is a decreasing term insurance designed to provide an amount of death benefit which corresponds to the decreasing balance of a mortgage loan. At any rate, the initial face amount and the subsequent reduced amounts are set at the time of purchase on the basis of the plan of repayments. Such a plan may be on a joint-life basis (e.g. husband and wife), the benefit being payable when the first life dies. A joint-life plan may in addition pay upon the second life's death, to help pay funeral costs and expenses. (The major differences between mortgage redemption insurance and credit life insurance are that (a) the former insures the interests of the mortgagors (who may sometimes be required by the mortgagees to name the mortgagees as beneficiaries) whereas the latter insures the lenders' interests, and (b) the former is a benefit insurance so that claims will still be payable even if at the time of death the debt has already been paid off whereas the latter is normally an indemnity insurance.)

Note: The above form of cover must not be confused with **Mortgage Indemnity**

Insurance. This is quite different, it covers the possibility of non-repayment of mortgage loans for any reason.

(c) **Increasing term insurance**: this plan, as the name suggests, insures a death benefit which increases annually or at other intervals. The increases may be at a fixed percentage, or in line with an agreed index (e.g. the Composite Consumer Price Index). The basic idea is to maintain the purchasing power of the benefit, which is especially important where severe **inflation** is anticipated. The premium generally increases in line with the increases in the level of benefit insured.

2.1.1.b. Renewable/Convertible Term Insurance

(a) **Renewable term insurance**: at first sight, this seems to be a contradiction, because a **term insurance** is for a fixed period, and this extends the period. The key point, however, is that the right to renew the policy is exercisable without submitting evidence of **insurability** (health) and the **premium** for the further period is increased to reflect the increased age of the life insured. (The new premium is said to be based on the **attained age**.)

Because such a plan can involve **anti-selection** (see **1.3.2a(c)(ii)**), there some limitations such as the following may be in place:

(i) renewals may only be for the original face amount or smaller **face amounts**;

(ii) the number of renewals permitted may be restricted (e.g. three times);

(iii) premium rates for a renewable term policy is usually higher than that for a comparable non-renewable term policy.

Frequently, one-year term policies are made renewable, either by a basic policy provision or an added **rider**. These have the obvious name **Yearly Renewable Term** (**YRT**) **insurance** or **Annually Renewable Term (ART) insurance.**

(b) **Convertible term insurance**: such a plan includes a **conversion privilege**, which gives the policyowner the right to **convert** (change) the policy to a permanent plan without evidence of **insurability** (health). If this privilege is exercised, the premium for the permanent plan must be the standard rate for such a plan based on the **attained age** of the life insured.

Because **anti-selection** is again a possibility with such a plan, restrictions are usually put in place:

(i) conversion may **not** be permitted beyond a certain age (say 55 or 65);

(ii) conversion may **not** be permitted after the policy has been in force for say 50% of its specified term (or a specified number of years);

(iii) the **face amount** of the **permanent plan** will be limited to that for the term insurance (probably less after the term policy has been in force for some specified time).

2.1.2. Endowment Insurance

An endowment plan will pay the **face amount** when the life insured survives a specified **term** but upon death in case he dies within the term. Should the insured person survive the term, the policy is said to **mature**. Thus, a claim may arise under such a plan either by **death** or **maturity**. As with a term insurance, the description of the policy must include reference to the number of years of the term involved, e.g. a 20-year endowment. Features to be noted with this plan are:

(a) **Premium**: are not cheap, since under normal circumstances the face amount **must** become payable not later than the specified number of years in the future; premiums are level, normally paid annually, although single premium endowments are possible;

(b) **Technically**: the plan is a **combination** of a term insurance and a pure endowment for equal amounts. (A **pure endowment** is a contract under which the benefit is only payable if the life insured **survives** the term);

(c) **Par** or **non-par**: such a plan may be on a participating (**with-profits**) or non-participating (**without-profits**) basis, at an appropriate premium;

(d) **Popularity**: because in principle such a plan provides the best of both worlds (premature death protection and personal savings for the policyowner if the policy matures), these have an apparent attraction.

2.1.3. Whole Life Insurance

Such a plan, quite literally, provides cover that will last the whole of one's life (sometimes it is called whole of life insurance). The fundamental feature is that the face amount is paid on death, whenever that occurs, and not before. Having said that, when the life insured reaches the age at the end of the mortality table that has been used to calculate premiums for that policy, usually 99 or 100, the insurer will pay the face amount, putting an end to the contract. The relevant policy features to note are:

(a) **Premium**: are level, but may be subject to different provisions, including:

(i) **payable throughout life**: in which event the policy may be called a **straight life insurance**, or a **continuous premium whole life policy**;

(ii) payable for a **limited period**: the policy may specify a number of years during the lifetime of the life insured for premium payments;

(iii) premium subject to an **age related limitation**: instead of specifying the number of years, the policy may stipulate a certain age (say 65) after which no more premiums are required. As with (ii) above, no further premiums are payable if death occurs before the specified years/age;

(b) **Par or non-par**: either form of cover is permissible;

(c) **Variations**: many variations are possible, such as premiums which **increase**, or face amounts which **change**, at specified times during the policy's life, to cater for different needs as time goes by. One such variation is called a **graded-premium policy**, where the premium increases (against a level **face amount**) on a regular basis, say every three years, until it equals the level premium that has been prescribed for the rest of the life of the policy.

2.1.4. Annuities and Pensions

Each refers to income or other financial provision (usually) for retirement or old age. A definition of each term is:

(a) **Annuity**: a contract whereby an insurer promises to make a series of periodic payments (called “annuity benefit payments”) to a designated individual (called the “payee”) throughout the lifetime of a person (called the “annuitant”) or for an agreed period, in return for a single payment or series of payments made in advance (called “annuity considerations”) by the other party to the contract called the “contractholder” (or “annuity purchaser”). Very often, the payee, annuitant and contractholder are the same person.

(b) **Pension**: a plan to provide for a monthly (or other periodic) income benefit to a person in retirement, until his death. It may consist of an annuity.

2.1.4.a. Annuities

Under a simple annuity plan, the balance of the annuity considerations paid is “lost” if the annuitant dies before their exhaustion. This has very little public appeal, especially in Macao, so annuities are not commonly found in practice. They have their uses, particularly with elderly people with a reasonable to considerable amount of capital and no living dependants or close family. In such circumstances, a guaranteed income for life may have its attractions, especially in view of the consequent removal of the temptation to spend the capital at an excessive rate.

Some features to be noted with annuities are:

(a) **Immediate annuity**: usually purchased with a single payment, it starts making annuity benefit payments one annuity period (time span between one scheduled payment and the next in the series; say, one month) immediately thereafter.

(b) **Deferred annuity**: the annuity benefit payments begin at some specified time or specified age of the annuitant, rather than immediately.

(c) **Variations**: a number of possible variations exist. The **annuity certain** provides for annuity benefit payments to be made for a fixed number of years only, whether death occurs in the meantime or not. The life annuity is one that provides for periodic benefit payments for the lifetime of the annuitant, and it is also referred to as a whole life annuity to distinguish it from a temporary life annuity, under which benefits payments are made during a specified period but only as long as the annuitant is alive. The life income annuity with period certain (or known as a guaranteed annuity) provides for benefit payments to be made for at least a specified number of years, even where death occurs within the period, and for the duration of the life of the annuitant if he survives the period.

(d) **Underwriting**: the underlying philosophy of annuities is completely opposite to that with life insurance. With the latter, the premium rate increases with age at inception and is higher for men than women of the same age. With annuities, the amount of each annuity benefit payment increases with age at payment commencement, and men receive a higher annuity benefit payment than women of the same age do. Put briefly, life insurance is based upon the chances of dying while annuities are based upon the chances of living!

2.1.4.b. Pensions

In Macau pensions are often considered to be more in the Government realm (for example for Civil Servants etc.). More common in the private sector, are

Provident Fund Schemes, which provide a lump sum benefit on retirement or other specified time, rather than an income. Starting 1 January 2018, the Non-mandatory Central Provident Fund System was implemented.

2.2. NON-TRADITIONAL TYPES OF LIFE INSURANCE

Life insurance, more or less in its present form, has been practised for approximately 400 years. During that time, the basic policy formats have become very established and they still form a practical and useful role in providing this important form of cover. However, the pattern of economic and social life does not stand still and new products have been developed, often providing a more flexible approach to life insurance cover and associated investment. We look at two such examples.

2.2.1. Universal Life Insurance

In an attempt to provide greater consumer choice and flexibility, this product has been developed, in the form of a variation of the whole life insurance. It has been well described as a life insurance contract which:

(i) is subject to a flexible premium;

(ii) has an adjustable death benefit;

(iii) has an "unbundled" pricing structure; and

(iv) accumulates a cash value.

We examine these and other features of this innovative product:

(a) **Flexible premium**: subject to a minimum level of first-year premium payment(s), the policyowner is allowed to enjoy the feature of flexible premiums. After the first policy year, he can even skip premium payments. Of course, the amounts of cover and cash value depend on how much premium has been paid and when the cash value is inadequate to cover the next, the policy will lapse.

(b) **Adjustable death benefit**: subject to certain limits, the death benefit may be increased or decreased, although proof of **insurability** may be required for any increase in benefit.

(c) **Loading disclosed**: the calculation of life insurance premiums includes an item for **expenses**, called loading (see **1.3.1a(c)**). Normally this is not disclosed to the insured, but with universal life insurance the expenses and other charges element is specifically disclosed to a purchaser.

(d) **"Unbundled" pricing**: the insurer separates and individually discloses, both in the policy and in the regular account statement (see **(g)** below) to the policyowner the three basic pricing factors, i.e.:

(i) the **pure cost of protection** (covering the death risk);

(ii) interest; and

(iii) **expenses**. (The calculation of life insurance premiums includes an item for **expenses**, called loading (see **1.3.1a(c)**). Normally this is not disclosed to the policyowner, but with universal life insurance the expenses and other charges element is specifically disclosed to a purchaser.)

(e) **Cash value**: the intention is that the policy should acquire an increasing cash value. This of course is heavily influenced by the amount of premiums paid by the policyowner. After the first premium, additional premiums (subject to an individual limit) can be paid at any time. These, with interest earnings, are added to the cash value after the deduction of:

(i) a specified percentage expense charge; and

(ii) the pure cost of protection (deducted monthly).

(f) **Death benefit:** according to the plan the policyowner chooses, this may be a face amount plus the **cash value**, or the face amount only. For a given face amount and given premium amounts, the former option will mean a lower rate of accumulation of cash value because the insurer needs to be compensated for running a risk of paying out a higher amount of death benefit.

(g) **Regular account statement:** each year the policyowner receives a report which shows the status of the policy. The information given includes:

(i) the beginning and end date of the current report period;

(ii) the current death benefit at the end of the current report period on each life covered by the policy;

(iii) the contract premium (where applicable);

(iv) the account value as of the beginning and the end of the current report period, as well as the total amounts that have been credited or debited to the policy value during the current report period, with a breakdown by type (e.g., interest, cost of insurance, fees and charges and riders premium etc.);

(v) the current cash surrender value as of the end of the current report period;

(vi) the actual non-guaranteed benefits declared for the current report period;

(vii) the current crediting interest rate for the universal life policies (if applicable);

(viii) the application of any optional product features with the corresponding values;

(ix) the amount of outstanding policy loans at the beginning and end of the current report period, the policy loan interest rate being charged, and the interest amount charged in the period;

(x) a notice shall be included in the statement if the policy would not be maintained in force until the end of the next reporting period unless further premium payments/loan repayments are made; and

(xi) the information of the attached rider(s).

Note: In the case of a participating life policy, the information in the Regular Account Statement should also include the current dividend/coupon accumulation interest rates.

It will be seen that this is a sophisticated product, allowing great choice to the policyowner to adjust his insurance according to his needs and financial resources as time goes by. Before selling such products, insurance intermediaries should obtain sufficient information and training from the insurer to ensure that they are capable of selling such products.

2.2.2. Linked Long Term Insurance

Also known as a “unit-linked long term policy”, “linked long term policy” and “Investment-linked Assurance Scheme Policy”, whose value is directly linked to, or directly reflects, the performance of the investments that have been purchased with the premiums paid. This may be achieved by formally linking the policy value to **units** in a special unitised fund run by the insurer, or to **units** in a unit trust. The value of the units is directly related to the value of the underlying assets of the fund or unit trust. Because of such linkage, the policy value naturally fluctuates according to the overall movements of those assets.

A detailed study of this sophisticated financial product is beyond the needs of this study. Before selling such products, insurance intermediaries should obtain sufficient information and training from the insurer to ensure that they are capable of selling such products. We should pay attention to some of the following features of this product:

(a) **Common principle**: Investment-linked policies may come in a variety of forms, but there is a common factor. All or part of the premiums will be used to purchase units in a fund at the price applicable at the time of purchase. The value of the policy will then fluctuate according to the value of the units allocated to it.

(b) **Types of funds**: a variety of funds may be used for linking purposes, including equities (ordinary shares), fixed interest investments and a whole range of cash and other asset funds.

(c) **Types of policy**: in theory, any kind of life insurance product may be investment-linked. The most common in practice are whole life and endowments, sometimes with a **guaranteed** minimum value, however unit prices may move.

Special care must be taken with products which are essentially investments, so that the consumer is aware that values may go up or down.

2.3. GROUP AND INDIVIDUAL INSURANCE PLANS

The majority of the plans we have considered so far have been with applications for the insurance of individuals, either insuring themselves or another person. This remains a key element in the field of life insurance, but group insurance is playing an increasing role. This is especially so with **employee benefit plans**, where an employer provides a form of life insurance, often as an additional benefit supplementing salaries and wages. Again, this is a complex area, but certain features we may note:

(a) **Basic difference:** the most obvious difference between individual and group insurances is that the latter covers a number of people under a single policy. Sometimes this is called a **master group insurance contract**.

(b) **Contract parties:** these are the insurer and the group policyholder, usually an employer, but possibly a club or other organization insuring its members. The persons within the group who are covered may be referred to as group insured or sometimes group life insured or persons insured.

(c) **Different plans:** plans may be contributory plans (where the employees or other persons insured pay a share of the premium) or non-contributory plans (where individual members do not contribute towards the premium).

(d) **Eligible groups:** usually this concerns a single employer, covering his staff members (collectively called a ‘group’), but the members of association groups (clubs, trade unions, sports associations, etc.) could equally be considered. Multiple-employer groups (consisting of the staff members of different companies), may participate in a single plan.

(e) **Underwriting**: doing business "in bulk" means that the high degree of underwriting attention applicable to individual insurances is neither possible nor necessary. Detailed individual information is usually not required with group plans.

(f) **Individual eligibility:** eligibility is usually decided by the **employer**, but the usual criterion for admission to group coverage is known as an actively-at-work provision. This means that the individual was not only employed, but also at work (not ill or on leave) when coverage became effective.

(g) **Declined coverage:** an eligible person (particularly with **contributory** schemes) may initially decline coverage. Should that person change their mind later, evidence of insurability may be required (to counteract **anti-selection**).

(h) **Termination of cover:** for individual persons insured, their cover may terminate upon ceasing to be eligible (leaving the employer or group) or failing to pay any required premium. Some plans allow individuals to convert their previous group cover into **individual** coverage, often without proof of insurability but normally within a specified time period.

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3. BENEFIT RIDERS AND OTHER PRODUCTS

Note: The term "policyowner-insured", as readers will come across in this chapter, refers to cases in which the life insured and the policyowner are the same person. Most life insurance policies are issued to policyowners who are also the life insured. However, readers should also be aware that when one person purchases insurance on the life of another person (the policy being referred to as a 'third party policy' [see **glossary**]) the purchaser is the policyowner and the person whose life is insured is the life insured.

3.1. DISABILITY BENEFITS

Also known as an endorsement, a **rider** (or **policy rider**) is such an amendment to a policy that becomes part of the insurance contract and that either expands or limits the benefits payable under the contract. A rider that excludes coverage is known as an exclusionary rider. We shall consider two such riders applicable to situations where the **policyowner-insured** becomes subject to some form of physical disability.

3.1.1. Disability Waiver of Premium (known as a WP Benefit Rider)

A waiver is an act of voluntarily giving up a right or removing the conditions of a rule. Under a Disability Waiver of Premium Rider, which may be added to virtually all types of life insurance policies, the insurer agrees to waive his right to renewal premiums otherwise payable whilst the policyownerinsured is **totally disabled**. This does not mean that the policy is **suspended**. Instead it remains in force, so that a policy that builds a cash value will continue to do so, and a participating policy will continue to yield dividends, as if the policyowner had paid the premiums.

For the purposes of a WP Benefit Rider, "total disability" may mean that, because of disease or bodily injury, the life insured cannot do any of the essential acts and duties of his or her job, or of any other job for which he or she is suited based on schooling, training or experience. Another form of "total disability" is also covered, i.e. the life insured's total loss, starting while the rider is in effect, of the sight in both eyes or the use of both hands, both feet, or one hand and one foot.

There are normally some limitations, as follows:

(a) **Waiting period**: where the policyowner-insured has been totally disabled as defined in the policy for a minimum period (usually three or six months), renewal premiums are **waived**. Once started, waivers will continue throughout the life of the policy until the disability ends. The original idea behind this probably was that most people continue to receive salaries and wages for at least short periods of disablement and so can still afford to pay premiums. But in fact some insurers will refund premiums paid during this waiting period if the disablement extends beyond the waiting period, in which case the waiting period is a kind of "time franchise".

(b) **Age limitation**: usually waivers are only available to cover disabilities which begin during a specified age range, such as the age range of **15 - 65**.

(c) **Premium frequency**: differing practices exist as to what mode of premium payment is assumed when premiums are being waived. For example, if premiums are being waived on a monthly basis, the insured person who recovers, say, 25 days after a premium has been waived would have to resume premium payments the following month. On the other hand, if premiums are being waived on an annual basis, his recovery after, say, 2 months would result in a waiver of premiums for an additional 10 months while he is no longer disabled, unless some adjustments are made. In view of such an undesirable situation, some policies provide that an annual premium-paying mode will automatically switch to a monthly mode for the purposes of premium waivers. Alternatively changes to the frequency of premium payments during disability periods are expressly disallowed.

(d) **Exclusions**: the cover given by this rider is similar to personal accident or medical insurance, so it normally carries some similar **exclusions**, such as:

(i) intentional self-inflicted injuries;

(ii) injuries sustained whilst engaged in criminal activities;

(iii) Pre-existing conditions;

(iv) injuries resulting from war while the policyowner-insured is in military service.

3.1.2. Disability Income Benefit

Whereas the WP rider gives relief from expenditure during **total disability**, the **Disability Income Benefit** rider (as the name suggests) provides an income during periods of total disability. Again, a Disability Income Benefit rider may be added to virtually all types of life insurance. The usual provisions relating to this rider are:

(a) **Definition**: “Total Disability” is defined in the manner as does a WP Benefit Rider.

(b) **Amount payable**: two alternative methods are used to establish the amount of disability income to be paid: an income formula and a flat benefit amount. A typical group disability income policy adopts an income formula, which expresses the income amount as a percentage of the insured member's pre-disability earnings, less the amount of any disability income benefit he receives from another source. Where a flat benefit amount is payable, no regard is to be paid to any other income benefits the insured member receives.

(c) **Waiting period**: similar in concept to that applicable with the WP rider, but the period varies from one to six months.

(d) **Not a loan or an advance payment**: the basic policy remains in full force during total disability so that if death occurs during a period of total disability the face amount of the basic policy is payable in addition to any income benefits paid or payable

3.2. ACCIDENT BENEFITS

Accident benefits that are commonly added to any kind of life insurance policy relate to accidental death and dismemberment. Frequently they are combined in a single rider, known as the **Accidental Death and Dismemberment (AD&D) Rider**.

3.2.1. Accidental Death and Dismemberment

To consider these separately, although they are frequently combined:

(a) **Accidental death benefit (ADB)**: this normally undertakes to pay a benefit equal to the face amount of the basic policy as an **additional** sum should death be caused by an accident. The customary provisions are:

(i) death must be caused directly by an accidental bodily injury and independently of all other causes, and have occurred within one year after that injury;

(ii) customary personal accident insurance exclusions apply, including:

(1) intentional self-inflicted injuries (e.g. as a result of **suicide**);

(2) war-related injuries;

(3) injuries during illegal activities;

(4) aviation injuries (except as a fare-paying passenger);

Note: 1. This benefit is often called the **Double Indemnity Benefit**. We know from earlier studies (see **1.2.3(b)**) that the use of the term 'Indemnity' here is **technically inaccurate**, since life insurance is normally not subject to the **principle of indemnity**.

2. Also referring to previous studies (see **1.2.3**(c)), **proximate cause** becomes important with this rider. By contrast, the cause of death is in most cases irrelevant in relation to claims under the basic life insurance plan.

(b) **Dismemberment**: literally "dismemberment" means losing one or more members (limbs), but the term within the **AD&D rider** relates to both the loss of limbs and the loss of sight. The usual provisions are:

(i) **Basic cover**: normally, a sum equal to the death benefit is payable if the life insured loses any two limbs or the sight in both eyes as a result of an accident;

(ii) **Lower benefit**: often policy provides for payment equal to a stated proportion of the accidental death benefit if an accident results in the loss of **one** limb, the loss of sight in **one** eye, or another specified lesser injury.

(iii) **Definition**: the loss of a limb may be described as the **actual** loss of limb (by physical severance at or above the wrist or ankle) or the loss of the use of the limb;

(iv) **Combination**: normally, the policy provides where the same accident has resulted in both dismemberment and death, it will pay either the dismemberment benefit or the death benefit, but not both.

3.2.2. Other Accident Benefits

Various forms of cover may be provided by different insurers, but a typical rider giving other accident benefits has the following features:

(a) **Benefit schedule**: the cover is injury from accidental bodily injury and a schedule (or list) of specified injuries is given, with a corresponding benefit against each. The list usually includes:

(i) Death - 100% of the sum insured;

(ii) Loss of Two Limbs - a specified percentage;

(iii) Total Loss of Sight - a specified percentage;

(iv) 1 Limb & Sight in 1 Eye- a specified percentage;

(v) *1 Limb or Sight in 1 Eye - a specified percentage;*

(vi) *Various specified lesser injuries - see below.*

Lesser injuries: comprise a detailed list of possible injuries, ranging from serious impairments (e.g. loss of a thumb or index finger) to relatively minor ones (e.g. loss of a single finger joint).

(b) **Other benefits**: cover may include one or more of the following:

(i) Serious Burns - at least third degree burns: **a specified amount**;

(ii) Weekly Benefits - during disability: a specified amount (for no more than 52 weeks);

(iii) Hospital Benefit - a specified daily benefit (for no more than 1,000 days);

(iv) "Double Indemnity" - all benefits (except hospital stay) **doubled**, if the injury arose whilst travelling on regular public transport or in the burning of certain public places (cinemas, etc.).

(c) **Exclusions**: the normally applicable exclusions, which are commonly found with personal accident covers, includes:

(i) Self-inflicted injuries (including suicide, at any time);

(ii) War – related injuries;

(iii) Injuries whilst involved in illegal activities;

(iv) Disease or illness (unless caused by an accident);

(v) Childbirth & Pregnancy;

(vi) Injuries resulting from hazardous sports - as defined.

3.3. ACCELERATED DEATH BENEFITS

The meaning of this is that when a policyowner-insured in a prescribed serious situations, all or part of the death benefit under the policy may be payable to him, although death has not yet occurred. Provisions for this are contained in an accelerated death benefit riders (ADB rider), also known as **living benefit rider**. Common features with the different riders concerned are:

(a) **Basic reasons**: the benefits are released at times of great personal stress, under grave and life-threatening circumstances. They are to assist with related expenditure and to provide at least partial relief from the extra burden of financial worry at times which are already grief-laden.

(b) **Eligible plan**s: the riders are only likely to be permitted with policies having a significant face amount for the sake of keeping administrative costs down.

(c) **Beneficiaries**: since pre-death payments to the policyowner-insured will have an impact upon the expectations of named beneficiaries, some insurers will, in the event of a claim under the rider, require the latter to sign a release (or release form), acknowledging that the death benefit stands reduced by the amount of the accelerated death benefit payment.

(d) **Assignees**: if the policy has been assigned, the assignee must sign such a release form, before an ADB is paid.

(e) **Types of benefits**: we shall consider two such accelerated death benefits, namely the critical illness and the long-term care benefits.

3.3.1. Critical Illness Benefit

The basic features of this rider are:

(a) **Meaning**: a stated portion of the death benefit is paid to the policyowner-insured when:

(i) He/she is diagnosed with a specified disease;

(ii) He/she is diagnosed with a terminal illness and has a life expectancy of 12 months or less; or

(iii) it is necessary for him/her to undergo a specified medical procedure;

(b) **Specified diseases**: the list of insured diseases is not identical with all insurers, but they all can be categorised into the following:

(i) cancer;

(ii) illnesses related to the heart;

(iii) disability

(iv) illnesses related to a major organ;

(v) illnesses related to the nervous system;

(vi) illnesses related to the immune system;

(vii) others.

(c) **Medical evidence**: a statement from an attending physician is necessary, confirming the medical condition and, in case of terminal illness, the assessed life expectancy as well.

(d) **Amount of benefit**: this will vary between companies and depend on the type of disease contracted, payment of the full death benefit being a possibility. Critical illness benefit is invariably paid as a lump sum.

(e) **Restrictions**: again, these are not universal, but typically they may include:

(i) critical illness cover is only available up to a specified age, say, age 80;

(ii) critical illness cover is only available to standard risks;

(iii) payments may not be made for multiple/recurring events, perhaps subject to exceptions with a couple of diseases;

(iv) waiting period: the diagnosis mentioned in **(a)** above has to be one done when the rider has been in effect for a specified number of days, say, 90 days.

(f) **Premium waiver**: some riders offer to waive all renewal premiums due after say three months of meeting the incapacity definition.

3.3.2. Long-Term Care (LTC) Benefit

This is not a very common product in Macao at present, but the basic features of this rider are:

(a) **Meaning:** a stated portion of the death benefit is paid to a policyowner-insured who requires constant care for a medical condition.

(b) **Types of care**: these will be specified in the rider, e.g. to be cared for in an approved nursing home or in the policyowner-insured's home by a duly authorized carer.

(c) **Medical evidence**: often the rider specifies that the care needs to be medically necessary. Confirmation of this is not always easy. Sometimes, the approval of the policyowner-insured's physician is acceptable, but many insurers require that the policyowner-insured is unable to perform a certain number of **activities of daily living** (**ADLs**) before the need is established. (ADLs will include basic human needs and functions, such as washing, dressing and mobility.)

(d) **Amount of benefit**: typically, this may be **2%** of the death benefit **per month** for nursing home care and **1%** for home health care. The maximum total payments may range between **50%** and **100%**.

(e) **Waiting period**: usually there is a **90-day** waiting period before LTC benefits are payable. Also, some insurers require the policy to have been in force for one year or more before qualifying for LTC benefits.

(f) **Premium waiver**: it is common for premiums to be waived, both for the rider benefit and the basic insurance plan, during the period that these benefits are being made to the policyowner-insured.

3.4. MEDICAL BENEFITS

In earlier days, medical benefits would not be provided under life insurance policies. Such cover was considered to be part of the "**Accident**" (Personal Accident) portfolio. In more recent times, the boundary lines between various classes of business has become less clearly marked. It is therefore quite common for life insurers to consider medical benefits insurance part of their "insurances of the **person**" range of products. Cover may be given as a **rider** to a life insurance, or separately as a standalone policy (for which type of insurance the insurer must of course be duly authorized by the Monetary Authority of Macao).

A typical form of cover found in Macao at present is likely to include most of the following features:

(a) **Basic plan**: Intended to cover the expenses related to medical treatment and hospitalization, the Basic Plan has a number of headings under which cover is given, typically as follows:

(i) **Hospital charges**: these are likely to have three different categories, according to choice and premium paid, the usual descriptions being Private Room, Semi-Private Room or Ward Bed. Cover includes Room and Board, Miscellaneous Hospital Services and an available supplement for Intensive Care treatment.

(ii) **Private nursing**: again with three categories, this includes nursing treatment at home, in hospital by a qualified nurse or as recommended by the attending medical practitioner.

(iii) **Surgeon's, anaesthetist's** and **operating theatre fees**: Maximum benefit cover is specified according to the three categories and the seriousness of the operation involved.

(iv) **In-patient physician's fees**: for non-surgical cases.

(v) **In-patient specialist's fees**: for treatment, consultations etc.

(vi) **Out-patient follow-up care**: within a designated period of hospital discharge.

(vii) **Free worldwide assistance**: a number of benefits and covers to help in the event of emergency needs whilst abroad. These range from instant telephone assistance to the return of mortal remains.

(b) **Optional medical plan**: Various titles may be given to this option, available at extra premium. The basic intention is to provide coverage for much increased limits under the various headings and categories of the Basic Plan.

(c) **Major exclusions**: There are limits to the time during which various benefits under the Basic and Other Plans may be paid, but these are part of the description of cover. Specific exclusions are likely to include the following:

(i) **Pre-existing conditions**;

(ii) **Pregnancy and childbirth** related expenses;

(iii) **Drug or other substance abuse**, self-inflicted injury and sexually transmitted diseases;

(iv) **AIDS** or **HIV** related conditions (sometimes only excluded for say the first five years of the insurance);

(v) **Congenital abnormalities** treatment.

3.5. INSURABILITY BENEFITS

Insurability is virtually self-explanatory, it means that by normal underwriting and business standards a particular risk is acceptable for insurance. The usual feature that affects this is, of course, the **health** of the person who is to be the life insured. Checking whether a person is insurable is a basic element in **underwriting** (see **5.3**). Sometimes the question of insurability, however, arises for an existing client (perhaps with policy **reinstatement** - see **4.7** or on other occasions). This question, however, may be avoided if the policy is made subject to the **Guaranteed Insurability (GI) Benefit**.

3.5.1. Guaranteed Insurability Option

The **GI** benefit is sometimes referred to as a Guaranteed Purchase Option. The basic features of this rider are:

(a) **Meaning**: the policyowner has the right to purchase additional insurance (of course for an additional premium) on specified option dates, at specified ages, or when a specified event happens, **without** having to supply evidence of insurability.

(b) **Limitations**: the amount of additional cover may be limited (to the existing policy's face amount, or less). Also the right may only be available until the life insured reaches a certain age (typically **aged 40**).

(c) **Not automatic**: if the policyowner does not effect the extra cover when the right is triggered, that particular right is **lost**. He may, however, exercise the right when the next turn comes, if any.

(d) **Specified event**: the rider may specify the insured events as **marriage**, or the **birth** of a child, etc.

(e) **Temporary cover**: some insurers grant term insurance cover automatically to cover the policyowner-insured during the period allowed for exercising his purchase option, so that if he dies before completing the option he has the extra term insurance cover.

(f) **Policy with WP**: if the insurance also has a **Disability Waiver of Premium** rider (see **3.1.1**) and the policyowner-insured is disabled at the time he is entitled to exercise an option for additional cover, the additional cover will be granted automatically. The WP rider also provides for **all** premiums to be waived, until the recovery or death of the policyowner-insured.

3.6. INFLATIONARY ADJUSTMENT

Inflation reduces the purchasing power of money. It is therefore an important element to be considered with any **long-term** insurance linked to a specific **face amount**. Bearing in mind that policies may continue for many years, perhaps many decades, before they become payable, it will be realized that what was once a significant amount may in real terms have been reduced to a small or even trivial sum, because of inflation.

Clearly, this is a problem needing serious attention to the whole of one's life insurance programme, but in the context of this Chapter on **Benefit Riders**, provision has been made in relation to disability income benefits being paid, as follows:

3.6.1. Cost of Living Adjustment (COLA) Benefit

This rider or policy provision provides for periodic increases in the disability income benefits being paid to disabled policyowner-insured. As the name suggests, the increases are linked to increases in a recognized independent index, such as the Composite Consumer Price Index.

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4. EXPLAINING THE LIFE INSURANCE POLICY

It should be mentioned at the outset of this Chapter that the Macau Life Insurance market tends to use policy wordings commonly found in the United States and North America. The General Insurance market, on the other hand, mostly uses policy styles originating in the U.K. For the purposes of this study (the Life Insurance Policy), we shall follow the more common "U.S. style" policy provisions, making appropriate comments relating to possible variations should a local insurer be using U.K. style life insurance policy wordings.

4.1. THE ENTIRE CONTRACT PROVISION

A Life Insurance Policy is very important document. The contract is Long Term, i.e. lasting many years, perhaps decades. Unlike most other classes of business, it is essential that the original policy document be presented when a claim is made. The "**entire contract**" provisions are therefore very important. They provide that:

(a) the **entire** contract consists of the policy, any attached riders and the attached copy of the **application**;

(b) **only** certain authorized persons of the company can make changes to the contract;

(c) no change to the contract will be effective unless made in writing; and

(d) **no change** to the contract can be made unless the **policyowner** agrees.

4.2. INCONTESTABILITY PROVISION

This means that within the terms of these provisions the validity of the contract cannot be contested (challenged) by the insurer. Disputes over the validity of an insurance contract may arise with an alleged breach of **utmost good faith** i.e. certain material facts have been omitted or misrepresented.

(a) The typical **Incontestability Provision** (or **Incontestable Clause**) states that the insurer will not (normally - see below) contest the contract after it has been in force during the lifetime of the life insured for two years from the date of issue. (If the phrase ‘during the lifetime of the life insured’ was omitted and the life insured died during the contestable period, the beneficiary might possibly delay making a claim until the end of this period and seek protection of the provision);

(b) Under Macao law, an Incontestable Clause cannot be relied upon in the event of fraud on the part of the claimant or the insured. Macao law will not support fraud, whatever a contract may say.

[**Example:** suppose a life insurance policy is arranged solely on the basis of the health and other information declared by the policyowner-insured. He fails to reveal certain **material information** such that a prudent underwriter would not have insured him. The man dies after three years. Under the normal rules of **Utmost Good Faith**, the insurer could avoid the contract. Nevertheless, it cannot do that because of the overriding effect of the incontestability provision. However, if the policyowner's failure constitutes a fraudulent breach of the duty of utmost good faith, the insurer may disregard the provision and avoid the contract if the **applicable law is that of Macao**.]

4.3. GRACE PERIOD

Under U.K. style policies, this is also called "**Days of Grace**". Essentially, this relates to a period of time after the date on which a premium is due, when cover is kept operative. Normally, the policy would **lapse** (terminate) if the premium is not paid by the due date, so these provisions allow for the late payment of premium without penalty. The features of these provisions are:

(a) the grace period is usually a minimum of **30 or 31 days**;

(b) the grace period does not apply to the initial premium for the policy;

(c) payment of premium within the grace period is deemed to be payment on time;

(d) this is **not** a period of free insurance; for example

(i) if the life insured dies within the grace period before payment of the premium, the premium due is deducted from the death benefit payable;

(ii) if the life insured survives the grace period without paying the premium due (and subject to any other policy provisions, such as **nonforfeiture**, see **4.5** below), a U.K. style policy will lapse from the date the premium was due, whereas a U.S. style policy will lapse at the end of the grace period (giving rise to "free insurance" for one month);

(e) special provisions may arise with non-traditional types of policy, e.g. universal life policy.

4.4. BENEFICIARY DESIGNATION

A beneficiary is a person to whom the policyowner of a life policy instructs the insurer

to pay the death benefit when it is due. A fundamental condition for the payment is that the beneficiary must survive the life insured. In practice, there are various types of designations and beneficiaries:

(a) The beneficiary is usually named in the policy. But class designations (i.e. identification of a certain group of people as beneficiaries instead of naming each of the persons) can alternatively be done. Examples of class designation include "my children", and "my brothers and sisters".

(b) The primary (or first) beneficiary receives the death benefit, when payable (if more than one is designated, shares will be equal unless otherwise specified in the policy). One or more Contingent Beneficiaries may be designated in addition to primary beneficiaries, in case all the primary beneficiaries do not survive the life insured.

(c) A life policy usually allows the policyowner to change the beneficiary designation whilst the policy is in force, in which case the designated beneficiary is called a "**revocable beneficiary**". Alternatively, it may have a provision included in the policy making the designation irrevocable so that a change of beneficiary will require the written consent of the current beneficiary.

(d) The wording of the typical beneficiary designation provision is apparently simple, giving rise to a general belief that any payable death benefit will certainly be paid to the beneficiary. In fact, a situation of conflicting claims may arise, possibly from policy beneficiaries, assignees, trustees of the policy, trust beneficiaries, trustees-in-bankruptcy, and personal representatives. An insurer in such a situation will face the risk of having to pay claims twice by taking it for granted that the beneficiary designation provision is paramount.

4.5. NONFORFEITURE BENEFITS

Most conventional life insurances (other than **term** insurances) acquire a **cash value** after an initial period in force. That cash value is important for a number of reasons, discussed elsewhere in these Study Notes, and has special relevance to the question of **nonforfeiture**. If something is "forfeited", it means that it is lost or the rights to it are taken away. "Nonforfeiture" therefore means that the rights are not lost under certain circumstances, in this instance the discontinuance of premium payments.

Without specific provisions to the contrary, non-payment of premium means that the policy will **lapse** if the premium is not paid within the **grace period**. The customary nonforfeiture provisions are that:

(a) the policy **does not** lapse because of non-payment of premium. Unless instructions are received to the contrary, the **cash value** of the policy is used to pay due premiums for as long as the cash value lasts, keeping the policy in force for the full amount.

Note: Some insurers do not regard this as a nonforfeiture benefit, but treat it as a quite separate policy provision known as an **automatic premium loan (APL) provision**.

(b) the owner of a policy which has a cash value or dividend value, who decides not to pay any more premiums, may exercise the following options:

(i) cash surrender value (also called surrender value): the cash surrender value is paid when the policyowner terminates the policy;

(ii) reduced paid-up insurance: the net cash value is used as a single premium to purchase life insurance of the same plan as the original policy for a lower amount of cover;

(iii) extended term insurance: the net cash value is used as a single premium to purchase term insurance for the same amount as the original face amount, for such period as the cash value can provide.

Note: These options arise when the insurer receives notice of a decision to discontinue premium payments. If premium payments merely **stop**, with no notice of selection from the policyowner, the **automatic** provision in (a) above, will be triggered. For polices not having such clause, option (b)(iii) above should apply automatically if the policyowner fails to choose any options.

4.6. POLICY LOAN

Another feature directly arising from the existence of a policy **cash value**, is the facility of borrowing money from the insurer, using the **cash value** as security. The concept arises with the **APL** feature mentioned in **4.5**(a) above, but the customary **Policy Loan** provisions are:

(a) the policyowner has a right to borrow money from the insurer;

(b) the loan may be for any purpose;

(c) the loan may be up to a certain percentage of the policy cash value;

(d) the only security required for the loan is the policy cash value;

(e) the applicable interest rate may be subject to a prescribed maximum;

(f) the amount and timing of any repayments are at the discretion of the policyowner, and any unpaid interests will become part of the policy loan;

(g) the amount of any outstanding loan (including any unpaid interests)will be deducted from the death benefit or surrender value that is payable.

4.7. REINSTATEMENT

Under U.K. life insurance practice, this is also known as "**Policy Revival**". The concept is that a policy which has lapsed ("died") can be brought back to "life" under certain circumstances. Of course, this can always happen by the mutual consent of the insurer and the policyowner. The term "reinstatement", however, in this context concerns the right of the policyowner to have a lapsed policy brought back into force. The usual policy provisions which apply to this are:

(a) there is a time limit within which this may be demanded;

(b) that period may vary between insurers, but **5 years** is quite representative;

(c) the right normally applies only to **lapsed** (not **surrendered**) policies;

(d) the reinstatement may be subject to any of the following conditions:

- (i) evidence of continued insurability (good health);
- (ii) payment of any outstanding loan, plus interest;
- (iii) payment of back premiums, plus interest thereon to be charged at a prescribed rate;
- (iv) payment of a reinstatement fee;
- (v) a further contestable period (see **4.2**) from the reinstatement date;
- (vi) a further suicide exclusion period (see **4.12**) from the reinstatement date.

4.8. MISSTATEMENT OF AGE OR SEX

Please note that this is a misstatement of age or sex. In the event of a voluntary sex change operation to an existing life insured, the advice of the insurer concerned should be obtained.

Obviously, a different age or sex from that indicated when the insurance was arranged can have a significant impact on the policy premium and/or benefit. The customary provisions in these circumstances are:

(a) If the error is discovered after a claim arises: the amount of the benefit is adjusted (up or down) to reflect the amount payable had the correct age/sex been given and the same premium paid.

Note: 1. If the insurer follows the commonest practice in the U.K. on this issue, any benefit adjustment could only be downward. If the age/sex mistake indicates that too much premium has been paid, the overpaid premium will be refunded (without interest) without an upward adjustment to the benefit payable. Again, this might be a point to check with any insurer using U.K. policy forms, etc.

2. The downward adjustment of the amount of benefits should be proportionally reduced by the portion of the premium not paid.

(b) If the error is discovered before a claim arises: the policyowner is usually given the choice of:

(i) leaving the face amount unchanged and receiving or paying the appropriate adjustment after calculating the correct premium that should have been paid; or

(ii) adjusting the face amount of the policy to the amount which the premium paid would have purchased at the correct age/sex.

Note: The U.K. practice on this point will be the same.

4.9. ASSIGNMENT

A life insurance is an **asset** of the **policyowner**. It is true that the interest in such an asset may be reversionary, i.e. full rights of enjoyment and disposal may not be acquired until some date or event in the future, but legal ownership exists **now**. Therefore, the policyowner has the legal right, as with any other asset, to **assign** or **transfer** that asset to another (as a **sale** - for a payment - or as a **gift**). If the assignment happens or is attempted, the policyowner is the assignor and the other party is the assignee. Assignment can be performed so as to execute a contract or a gift.

Certain features of assignment that we should note, arising from policy provisions and otherwise, are as follows:

(a) **Notice of assignment**: an assignment is valid from the date of notice given to the insurer. A typical life insurance policy contains an assignment provision, which, without intending to prevent an assignment, says that the insurer is not bound to act in accordance with an assignment until it receives a written notice of it.

(b) **Validity of an assignment**: the said assignment provision disclaims insurer's responsibility for this; this implicitly is saying that the assignor should seek independent legal advice on the formalities required for a valid assignment.

(c) **Rights of the assignee**: the assignee inherits from the assignor all his rights and remedies upon a valid assignment. However, the assignee cannot recover more than the assignor, so that where an assignor has purchased insurance by fraud or misrepresentation, the insurer can set up a defence against the assignee. Besides, the insurer can enforce against the assignee any of its right to set off against the assignor, so that when any policy benefit is payable to the assignee any overdue premiums from the assignor and outstanding policy loans to the assignor together with interests thereon will be deducted from the benefit, in which case the **assignee** is said to receive the net policy proceeds.

(d) **Assignment is of benefit, not burden**: the laws do not allow a person to assign to another person an obligation that he owes to a third person (e.g. an obligation to pay insurance premiums) without the third person's consent.

(e) **Limitations on the assignment**: the assignment

must not violate any vested right of any **beneficiary** (especially of any **irrevocable beneficiary** - one that cannot be changed without his consent). It is important to note that through a revocable beneficiary designation, what the designated beneficiary will acquire is a mere expectation to receive benefit, as opposed to a **vested right** or interest;

(i) must not be for illegal purposes (e.g. money laundering);

(ii) may be restricted to involve only a **lump sum** payment to the assignee, i.e. no other settlement options.

(f) **Types of assignment**: life insurers categories assignment into two types:

(i) **absolute assignment**: where all ownership rights under a life insurance contract are irrevocably assigned, such an assignment is termed an absolute assignment;

(ii) **collateral assignment:** the arrangement is temporary, usually where the policy is used as collateral security for a loan (**not from** the insurer). The terms of such an assignment limit the assignee's interest to the loan plus interests thereon, and give the assignor a right of reversion once the loan is repaid in full. The assignor is not entitled to acquire a **policy loan** or **surrender** the policy whilst a notified collateral assignment is in force.

4.10. DIVIDEND OPTIONS

Participating policies, in due time, should qualify for dividends, which are distributed in three ways: cash dividend, reversionary bonus and terminal bonus. **Cash dividends become**

payable to the participating policyowner immediately. However, the policy normally presents some dividend options in respect of cash dividends, so that they may be:

(a) paid in cash at once;

(b) applied towards future premiums of the policy;

(c) left with the insurer to earn interest (note: dividend deposit (inclusive of the interests thereon) is distinct from cash value);

(d) used to buy paid-up additional insurance, which will generate dividends as well;

(e) used to purchase one-year term insurance.

Note: If the policyowner makes no selection from the available options, most policies make provision for what is known as an automatic dividend option to apply. In Macao, practice seems to vary, but the likely alternative applications are:

(i) option (c) above, leaving the dividends with the insurer to earn interest; or

(ii) option (d) above, the purchase of paid-up additional insurance.

Insurance intermediaries should check with the insurers.

4.11. SETTLEMENT OPTIONS

When the policy benefit becomes payable, the beneficiary and/or policyowner may choose between several alternative methods of receiving the proceeds ("settlement options" or "optional modes of settlement"). These are:

(a) a lump-sum settlement: a single payment, to complete the whole contract;

(b) an interest option: the proceeds are left with the insurer, who pays interest annually or at agreed more frequent intervals;

(c) a fixed period option: the policy proceeds (and interests) are paid in instalments of equal amounts over an agreed period of time - effectively this is an option of purchasing an annuity certain with the policy proceeds as a single premium;

(d) a fixed amount option: the insurer pays equal instalments of stated amount for as long as the policy proceeds (and interests) last;

(e) a life income option: the policy proceeds (and interests) are paid in agreed instalments over the payee's lifetime - effectively this is an option of purchasing a life annuity (see **2.1.4**a(c)) with the policy proceeds as a single premium. Under this method, the payee should expect smaller instalment payments than would be available under the fixed period or fixed amount option.

4.12. SUICIDE EXCLUSION

One of the features of life insurance is that the benefit may be payable even if the cause of the claim was the deliberate act of the insured life. This arises from the underlying reason for life insurance, which originally was primarily to make provision for dependants, rather than to benefit the life insured personally.

With a long term contract and under those circumstances, it would be unfair to penalize the family in the tragic event of the insured person taking his own life. On the other hand, certain safeguards against the effecting of life insurance with suicide in mind are perfectly reasonable. The usual provisions are:

(a) suicide is excluded for an initial period of the policy;

(b) that period may vary with insurers, but 1 year after the date the policy is issued is very representative;

(c) should suicide occur after that period, the death benefit is payable as normal;

(d) should suicide occur during that period, the death benefit is not payable, but it is normal for the policy terms to state that premiums paid (less any outstanding loan and interest) are refunded.

Note: 1. Being a policy exclusion, it is for the insurer to prove that death was by suicide - not always an easy thing to do.

2. Bearing in mind the overall intention of the exclusion (to defeat arranging a policy when suicide was contemplated), it is not unknown for an insurer to pay for a proved suicide which can reasonably be assumed to be attributable to events arising after the policy commenced, and which will otherwise be caught by the exclusion. Of course, this would be ex gratia payment (i.e. not legally required) and the circumstances would have to be quite unusual.

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5. LIFE INSURANCE PROCEDURES

5.1. COMPANY ESTABLISHMENT

To engage in life insurance business in Macao, an insurance company must be established in the form of a joint-stock limited liability company with head office in the Macao Special Administrative Region or a branch with head office overseas. The relevant establishment conditions and procedures must be in accordance with Decree-Law No. 27/97/M, of 30 June, "Macao Insurance Ordinance", amended by Law No. 21/2020 and republished by Dispatch of the Chief Executive no. 229/2020.

5.1.1. Typical Company Operational Structure

Since company structures cover a great number of inter-related activities and there is no set pattern to follow, we shall briefly mention various departments or functions, in alphabetical order only:

(a) **Accounts department**: According to company policy and structures, the Accounts department may represent the relatively routine (but **important**) role of bookkeeping and financial record maintenance, or (more likely) it will include **Management Accounting**, with responsibilities in the key areas of budgeting and investment etc. Standard functions of the Accounts Department include:

(i) Receipts: monitoring and recording all payments due to the company, by way of premiums, reinsurance, loan repayments, etc.

(ii) Payments: monitoring and recording all payments to be made by the company, including claims, salaries, agency commissions, purchases, etc.

(iii) Financial returns: every insurer must submit audited accounts each year, as required by the Macao Insurance Ordinance. This is a major function and responsibility of the Accounts department.

(b) **Actuarial department**: As mentioned before, life insurance is profoundly involved with mathematical calculations and projections. The actuarial department therefore has a key role in company operations, its involvement including:

(i) Product pricing: probably sub-divided between the various major types of product offered, e.g. Individual Life, Group Life, Health, Personal

Accident and Retirement Benefits.

(ii) Valuation: a **core function**, required by statute, valuation consists of the calculation of the value of **assets** and **liabilities**. The way this is done is **critical** to the solvency margin of the company and the determination of the divisible surplus, from which **dividends** (or **bonuses**) (**or maturity bonus**) can be declared. (It is the Board of Directors that makes the actual decisions on declaration of dividends or bonuses.)

(iii) Claims and reinsurance: calculations and projections of reserves and needs in these areas are obviously of great importance.

(iv) Management reporting: this could be within the area of the company accounting staff, but whoever performs the function, it is a critical one. Unless top management are supplied with reliable data on reserves, surpluses and other key matters, effectively the company cannot operate (at least not efficiently, and that probably means "not for long"!).

(c) **Agency training and control**: The great majority of individual life insurance plans are sold through insurance agents. They at one and the same time represent almost the "lifeblood" of the company, and a major responsibility regarding their appointment, training and discipline. Details of requirements are given elsewhere in these and other Study Notes, but very important matters in this area include:

(i) Training programmes: arranging, organizing and administering, with all the logistical and personal details involved.

(ii) Examinations: both with regard to their being accepted as insurance intermediaries (this Insurance Intermediaries Quality Assurance Scheme, for example) and other professional qualifications.

(iii) Resources and facilities: the provision of suitable materials, premises and opportunities for training and career development have obvious applications.

(d) **Claims**: Without claims we have no business! Perhaps a slight oversimplification, but there is truth in the remark. This important area includes:

(i) Routine administration: all the required enquiries, checking and general supervision to confirm all is in order.

(ii) Various types of claim: such as death claims, maturities and surrenders, which may require different kinds of expertise.

(iii) Investigative work: sometimes detailed forensic or other enquiries need to be made in verifying the validity of a claim.

(e) **Customer Service** (also known as **Policyowner Service**: see **5.5**): This involves a variety of functions, including:

(i) Changes to policies: these may relate to **financial** or **non-financial** changes, all of which are important to efficiency.

(ii) Communication: this will involve both correspondence and telephone/personal enquiries, and **complaints**.

(iii) Documentation: policy duplicates (with all attendant checks and enquiries) and other document requests.

(iv) Policy renewals: the important process relating to the **retention** of business.

(f) **Marketing**: This is a general term that can signify many things. It usually includes:

(i) Product research: and development of new sales products.

(ii) Promotions/publicity: producing the materials and physically attending to all logistic and other details involved.

(iii) Advertising: closely related to (ii) but with special features such as media involvement and sponsoring.

(iv) Public relations: news conferences, media interviews, public talks and seminars, for example.

(v) Market research: examining needs, demands and results.

(g) **Underwriting**: This is considered as a technical exercise in **5.3** below, but as an element in company operations this department includes:

(i) Risk assessment: the technical matter of selection, rating and imposing terms, as necessary.

(ii) Medical requirements: arranging and monitoring such medical examinations and related documentation as may be required.

(iii) Reinsurance: the extent to which reinsurance may be required or arranged with individual risks.

Note: The above departments are representative, as previously mentioned. They do not form a comprehensive list and are not intended to represent the operational structure of any particular insurer.

5.2. APPLICATION

Some insurers might refer to an application form as a proposal. Either term may be found in the Macao market, although "application form" is perhaps more widely used. Both refer to the request for insurance cover from an intending policyowner. A number of significant issues and considerations are involved with this important matter, made more important by the fact that a life insurance cannot be **cancelled** by the insurer once it becomes operative.

5.2.1. Application Procedure

Competition and the desire for efficiency has led to the questions on the application being kept to the minimum. Often, questions are phrased so that a **"No"** answer means that no further enquiry needs to be made in that topic, whereas a **"Yes"** answer may need further details or enquiry.

(a) **General rules for application procedures**: the application/proposal is the main, and sometimes virtually the only, source of information for underwriting purposes. The insurance intermediary should therefore take great care in his advice and general assistance to the client when the form is being completed, noting the following:

(i) All **material facts** should be given. "Yes" answers in response to enquiries on health and other matters must be accompanied by full explanations, including any relevant dates (see: **1.2.2**).

(ii) Normally the applicant should complete the form **personally**. Sometimes the insurance intermediary is asked to assist by writing things at the client's dictation. Great care must be taken with this, to ensure that the client realizes that the form is **his** statement and the answers are **his**.

(iii) **Alterations** and amendments should be avoided, if possible. If not, they must be very clear. Anything incorrect must be clearly crossed through or deleted and the alteration should be **signed and dated** by the applicant. (A replacement form may be advisable in many cases.)

(iv) **All** questions should be answered, as **fully** as required. Failure to observe this rule can only result in delay. Information with life insurances is too important to be waived.

(b) **Key points to be considered**: Some areas requiring special attention include:

(i) The **desired commencement date** should be clearly indicated. It is normal for insurers to allow a policy to be back-dated for a certain period (which may vary with the insurer concerned).

(ii) The identity of the applicant and life to be insured is important to establish. Any available **Identity Card** (or equivalent document of identification) should be inspected by the agent (some insurers require a copy to be attached to the application).

(iii) **Age next (or sometimes last birthday)** is an important element affecting the premium.

(iv) **Other personal details**, including occupation, residential address and family medical history all have a significance which is self-explanatory.

(v) **Signature** of both the applicant and the life to be insured (if different) must be obtained.

(c) **Supplementary requirements**: These may involve a number of issues, detailed instructions about which will be supplied by the insurer. Some areas likely to be involved, however, include such matters as:

(i) **Life underwriter's report**: signed by the insurance intermediary, and including the reason for the purchase and the length of his acquaintance with the client.

(ii) **Mode of premium payment**: whether autopay facilities apply.

(iii) **Proof of insurability**: establishment of an **insurable interest**.

(iv) **Underwriting forms**: additional questionnaires for "Yes" replies relating to certain medical conditions/ailments, or other matters (e.g. hazardous sports).

(v) Other information: For the purpose of combating money laundering and terrorism financing activities, it is necessary to collect other information according to the risk profile of the applicant, such as the source of funds, proof of assets, proof of occupation, or proof of address, etc. (For details, please refer to the "Guidelines on prevention and combating money laundering and financing of terrorism in insurance" issued by the Monetary Authority of Macao.)

5.2.2. Receipts and Policy Effectiveness

The fact that a life insurance policy cannot be cancelled by the insurer once it has commenced is a matter of recurring importance. In connection with **receipts** issued by insurers, for example, in General insurance a receipt is merely an acknowledgement that some money has been received. This is not inevitably connected with the inception date of the insurance, which could have already commenced some time ago, or could be intended to commence in the future. Moreover, even if the (General Insurance) policy has commenced, there is usually a policy condition allowing cancellation if need be. Not so with **Life Insurance**.

In life insurance, a premium receipt is a written acknowledgment that an insurer has received the initial premium submitted with an **application** for insurance. There are **two** types of premium receipt which are in common use:

(a) **Conditional premium receipt**: With this type of receipt the insurer agrees that the insurance will commence at the time of application. **BUT** this is true only provided that the applicant is subsequently found to have been insurable on standard terms at the time of application. Two things follow from this:

  (i) if the applicant is found to be insurable, but **only** for a different plan, premium or amount of cover, then the insurance is **not** effective from the date of application. Technically, we may say that the **offer** has not been **accepted** on its exact terms, so the contract does not commence until any revised terms have been agreed;

  (ii) if the applicant, **subsequent** to the application becomes uninsurable or even dies he is covered provided he is found to have been insurable at the time of application.

(b) **Binding premium receipt**: This may be known by other names, such as a Temporary Insurance Agreement (TIA) or an Unconditional Premium Receipt. Whatever the title is used, the basic features surrounding such a receipt are:

  (i) this is a **contract**, separate from any subsequent insurance policy that may be issued;

  (ii) cover **begins** from the date the application was signed and the date that the premium was paid;

  (iii) cover is **not** conditional upon the applicant subsequently proving to be, or to have been, insurable; **but**

  (iv) cover is limited to a maximum specified number of days (say **60** or **90** days);

(v) the cover may be terminated **earlier** than the final day of the period specified:

(1) from the date the insurer returns the premium;

(2) a specified number of days after mailing a notice of termination to the applicant;

(3) from the date when coverage begins under the issued policy.

Note: In General Insurance a similar document is used to give **temporary**, unconditional but **cancellable** cover. There it is called a **Cover Note**, although it is usually only for 30 days cover and may or may not be conditional upon any premium payment.

5.2.3. Customer Service—Policies and Standards

Customer services has been described as the range of activities a company engages in to keep its customers satisfied.

5.2.3.a. The Importance of Customer Service

This may have a number of considerations, including the following:

(a) Customer loyalty: the customer who is happy with you tends to stay with you. Continuity and the **conservation** of business is very important in life insurance, where the most of the costs and expenses are "up front" (when the policy is first arranged).

(b) Customer "prospecting": "prospecting" may be described as the search for new customers. If existing customers are happy with you, they immediately become your "unpaid prospectors" with their friends and families.

(c) Productivity/Profitability: quality service leads to fewer mistakes and fewer complaints. That in itself means that effort can be directed to more productive activity, with its consequent impact on profitability.

5.2.3.b. How to Achieve Quality Customer Service

There is no simple answer to this, but certainly the following will greatly assist in achieving desired goals in this area:

(a) Corporate culture: this should always be **customer-orientated**.

(b) Delegation: of adequate and appropriate **authority** and **accountability** to front-line employees.

(c) Systems: should be created to monitor **customer satisfaction**.

(d) Training: training and technology appropriate to these goals should be provided to the employess at different position or to the insurance intermediary.

Note: The above recommendations apply primarily to the insurer, but the underlying principles are easily adapted and applicable to insurance intermediaries.

5.2.4. Cooling-Off Period

One of the popular conceptions, and certainly a popular fear in the general public, is that life insurance intermediary or salesmen may be too assertive, even aggressive, in their selling. The perceived result from this could be that persons might be pressurized into purchasing a life insurance that they do not really want, or cannot really afford. In addition, because the life insurance products are generally mid-term or long-term contracts, it may take some time for policyholders to understand the policy terms, premiums and fees, product features, and potential risks of life insurance products.

In order to avoid this situation and to properly protect the rights and interests of policyholders, the Monetary Authority of Macao has amended the guideline "**Cooling-off" Rights for Purchasers of Life Insurance Policies**. A **revised guideline** "Guideline on Cooling-off Rights for Life Insurance Policies" is expected to take effect **on 1 January 2023**. Its objective and main provisions are as follows:

(a) Policyholders are given a reasonable period (called a "**Cooling-off Period**") during which they may reflect and if they wish change their mind about a life insurance policy that they have purchased or applied for;

(b) The Cooling-off Period is 21 calendar days after the delivery of the life insurance policy (together with an reminder of cooling-off rights) or Cooling-off Notice to the policyholder or the nominated representative of the policyholder, whichever is the earlier; or

The insurers can adopt an "extended cooling-off period", that is, 21 calendar days after the life insurance policy (together with a reminder of cooling-off rights) is delivered to the policyowner or the nominated representative of the policyowner. At the same time, insurers are also allowed to provide with a period even longer than the "extended cooling-off period” to the customers.

If the last day of the 21 calendar day period is not a working day, the period shall include the next working day.

(c) Insurers and insurance intermediaries must make policyholders to be aware of their cooling-off rights in the following ways:

(1) Declaration of Cooling-off Rights in Application Form: the insurer must display the content of the statement prominently in the policy application form immediately above the space for the prospective policyholder’s signature in order to remind them of their right to cancel the policy during the cooling-off period and refund the premium.

(2) Reminder of Cooling-off Rights at Policy Issuance: when delivering the life insurance policy to the policyholder or nominated representative of the policyholder, the insurer should properly attach a reminder that the policyholder has the right of the cooling-off period.

(3) Cooling-off Notice: refers to a written notice issued by an insurer that explains the cooling-off period and its expiry date. The notice must be directly delivered to the policyholder or nominated representative of the policyholder by the insurance company within 9 calendar days from the date of issue of the life insurance policy. If the last day of the 9 calendar days is not a working day, the period shall include the next working day.

(d) Insurers should:

(i) Specify in the insurance intermediaries’ training materials and internal guidelines:

a) Before a prospective policyholder signs the application form, the insurance intermediary must inform the prospective policyholder of the right to cancel the policy within the cooling-off period, the expiry date of the cooling-off period, and the insurer’s right to apply market value adjustments together with its basis of calculation (if applicable); and

b) If the insurance intermediary is responsible for delivering the policy on behalf of the insurer, after the policy has been issued, the insurance intermediary should use all reasonable endeavours to deliver the policy to the policyholder or the nominated representative of the policyholder within a reasonable timeframe as specified in **(d)(ii)(a)** below.

(ii) Ensure and prove:

a) The policy has been successfully delivered to the policyholder or nominated representative of the policyholder within 9 calendar days of the date of issue of the policy; or

b) The Cooling-off Notice has been directly issued to the policyholder, stating that the availability of his/her life insurance policy and the expiry date of the cooling-off period, within 9 calendar days of the date of issue of the policy.

(e) Subject to the following provisions, the policyholder has the right to cancel a new policy during the cooling-off period and obtain a refund of premium:

(i) Except for Investment-Linked Assurance Scheme policies and single premium policies, the refund shall be 100% of the premium which the policyholder has paid. The refund premiums paid can be in the policy currency or the original currency paid by the policyholder, or in a currency with an exchange rate agreed by the policyholder.

(ii) For Investment-Linked Assurance Scheme policies and all single premium policies, the insurers have the right to apply a "Market Value Adjustment" (MVA) to the refund of premiums.

(iii) MVA must be calculated solely with reference to the loss the insurer might make in realizing the value of any assets acquired through investment of the premiums made under the life insurance policy. Therefore, it shall not include any allowance for expenses or commissions in connection with the issuance of the policy.

(iv) Before the prospective policyholder signs his/her policy application form, the insurer must disclose and inform him/her about the insurer’s right to apply MVA and its basis of calculation in the relevant product brochure.

(f) Insurance intermediaries must clearly explain the cooling-off rights to customers. At the moment, the relevant provisions are standard items on an application form (usually as part of the “Declaration of Cooling-off Rights in Application Form” signed by the applicant);

(g) When the policy is issued, the policyholder must be reminded again about the cooling-off period (the “Cooling-off Notice”). The insurer can provide the notice directly to the policyholder by way of a letter with the delivery of the policy, or a statement included on the policy jacket/cover/the front page of the insurance policy.

5.2.5. Policy Replacement

With a competitive and innovative life insurance market, obviously there can be genuine and quite legitimate cases where an insurance intermediary can in all conscience recommend a client to "**switch**" (change) his present life insurance policy to the one offering better terms or prospects. Obviously, some of these "switching" are legitimate and completely legal.

This form of "policy replacement" will meet the approval of all unbiased people and create no problem for regulators. "Policy Replacement" which does not comply with the above criteria is a matter of profound concern. This is more commonly known as "Twisting". Regarding the issue of policy replacement and twisting of life insurance policies, the Monetary Authority of Macao has consolidated and revised the "Guidelines for Life Insurance Replacement" and the "Amendment to the Customer Protection Declaration for Purchasers of Life Insurance". The new guideline "Amendment to the Guidelines on Life Insurance Replacement" (hereinafter referred to as "Guideline") shall take effect from 1 April 2022.

(a) **"Twisting" defined**: in colloquial English, "Twisting" is another word for "cheating" or "swindling" which is particularly appropriate in this case. The Guideline defines twisting as:

"It refers to the making of misleading or incorrect statements, inaccurate comparison of policies, or deliberately concealing some information by the insurance intermediary to induce the policyholder to carry out the Policy Replacement."

(b) **"Policy Replacement"**: Unlike "Twisting", "Policy Replacement" is a neutral term which means during the 12 months prior to the application date or 12 months immediately following the application date, the policyholder was using or intends to use the existing life insurance policy to obtain funding or reduce payable premium for subsidising the purchase of the new life insurance policy by means of the following:

(i) Exercise the right under the existing life insurance policy, including withdrawal or partial withdrawal the policy value, surrender or partial surrender, and thereby reducing the total cash value, sum assured, or other policy value or benefit of the existing life insurance policy;

(ii) Take out a policy loan from the existing life insurance policy;

(iii) Reduce, suspend or cease to pay the premium payments of the existing life insurance policy, including the conversion into reduced paid up or extended term insurance by automatic operation of the terms and conditions of the policy, execution of automatic premium loan, execution of premium holiday or lapsation of policy; or

(iv) Change the ownership of or assign the existing life insurance policy.

The guideline also specifies the scope of application: for example, the guideline does not apply to group life insurance policy and key person life insurance policy; and the compliance will be exempted if: for example, if the new Life Insurance Policy is purchased by using the policy maturity benefit, regular annuity benefit or the claim benefit obtained from the occurrence of the insured event which is not controllable by the policyholder, the related transaction is not considered as Policy Replacement.

(c) **Identification and assessment for policy replacement**: During the sale process, the insurance intermediary must take appropriate steps to make enquiries to the customer in order to find out whether the customer is using the Existing Life Insurance Policy to obtain funding or reduce the payable premiums for subsidising the purchase of the new Life Insurance Policy (i.e. policy replacement behavior).

If the transaction is identified as a policy replacement, the insurance intermediary has the obligation to take all the reasonable action, to assess and analyse whether the Policy Replacement is in the customer's best interests. The insurance intermediary should provide customers with the comparison and analysis of the existing and new life insurance policy, and the detailed explanation of all the implications and adverse consequences from the policy replacement, and properly document the relevant record.

(d) **Customer Declaration for Policy Replacement (CDPR)**: This is a very important document, for all the identified or potential Policy Replacement cases, the insurance intermediary must explain the contents of the CDPR to the customer, and make the relevant declaration and sign on the CDPR. The insurer shall provide training to help its insurance intermediaries to understand the contents of the CDPR. Important features of the CDPR are as follows:

(i) Assisting the customers to aware of the potential implications and disadvantages arising from the policy replacement; and

(ii) Prior to the customer signing the CDPR, the insurance intermediary must explain to the customer in detail in respect of all the implications and risks arising from the Policy Replacement as well as the information set out on the CDPR, including:

(1) Financial implications

(2) Insurability implications

(3) Claims eligibility implications

(iii) If the insurance intermediary is not able to provide any analysis, evaluation and recommendation about the policy replacement, or if any item in such CDPR is rated as “No Implication”, the Insurance Intermediary shall provide a detailed and written explanation to the customer on the CDPR.

(iv) In order to ensure that these procedures are fully complied with, the insurers and insurance intermediaries must maintain sufficient records to show that the customer has been explained clearly the potential implications and disadvantages arising from the policy replacement, or reasons for no adverse consequences.

(v) The insurer of new policy shall retain the original copy of the "CDPR" and the written analysis, evaluation and recommendation provided by the insurance intermediary, and provide relevant copies of these documents to the customer on or before the issue date of the new life insurance policy; at the same time, copies of relevant documents should be sent to the insurer of existing policy, which requires the customer to confirm and agree on the "CDPR".

(e) **Identifying twisting can be done** by:

(i) Discovered by the customer: The customer lodges a complaint with the insurer or the Monetary Authority of Macao on suspicion of twisting.

(ii) Discovered by the insurer of new policy: The insurer of new policy has the responsibility to monitor the sale activities of its insurance intermediaries, and to review the completeness and reasonableness of all the application documents during underwriting process, who can also call the customer for confirmation. If suspected twisting is identified, or there is substantial evidence to prove that a policyholder may suffer losses due to twisting by the insurance intermediary, investigation must be conducted and appropriate actions must be taken (see (f) below). If twisting has not occurred, the relevant insurance intermediary shall be retrained.

(iii) Discovered by the insurer of existing policy: By analysing the copy of the "CDPR" provided by the insurer of new policy, or being aware of the abnormal behavior conducted by the policy holder on his or her existing policy(ies), and reasonably believing that the customer may suffer the Twisting induced by the insurance intermediaries of other insurers , which can also be confirmed by calling the customer. The insurer of the existing life insurance policy should carry out the investigation, or require the insurer of the new life insurance policy to conduct an investigation.

(f) **Follow-up actions and remedial measures**: If the insurer of new policy and existing policy mutually agree the twisting has in fact occurred, the related insurers must reach an agreement as soon as possible within 30 days from the date twisting is confirmed, and ensure to prioritize the customer's rights and interests into the consideration. The customer must be informed of any important fact or arrangement which may impact his or her rights and interests.

(i) If the related insurers mutually consider twisting has occurred, the insurer of new policy should as soon as feasible:

(1) Report the concerned insurance intermediary to the AMCM;

(2) Suspend the insurance intermediary from engaging in new insurance business;

(3) Claw back the commission paid in respect of the concerned new life insurance policy(ies); and

(4) Notify the customer in writing:

- The insurance intermediary may violate the obligations of the insurance intermediary during the sale process;
- In the view of above, the customer can request to terminate the new life insurance policy(ies) and reinstate the existing life insurance policy(ies);
- The customer has the right to request for a refund of all premium paid on the new life insurance policy(ies);
- The customer shall make a decision within 30 days upon receiving the notice; and
- The related insurance intermediary has been suspended from selling activity, and has no further authority to represent the insurer.

(ii) Based on the customer's intention, the Insurer of Existing Policy shall draft the conditions to reinstate all the existing policies replaced by Twisting at a level to which the customer's rights and interests will be reinstated to the greatest extent. Nevertheless, the insurer of existing policy is not responsible for the claim after lapse or surrender of the existing life insurance policy arising from the policy replacement. The insurer of new policy is responsible for the claim under the terms and conditions of new life insurance policy.

(iii) If the related Insurers cannot reach an agreement, or the customer has objection on such agreement, the customer can submit the case to "World Trade Center Macau Arbitration Center" to conduct financial consumption disputes mediation or seek for alternative judicial solutions.

(iv) Twisting shall constitute infringements. Once Twisting is confirmed, the related entity and person shall be penalized according to the applicable laws for the carrying on insurance intermediary business.

5.2.6. Distributions of Policy Dividends

5.2.6.a. Basic Principles of Dividend Distributions

Participating policies are bought with expectations of returns in the form of policy dividends, and they normally grant guaranteed cash values as well. Generally, the amounts of dividend to be declared and distributed are directly linked to the experience of the pooled fund of the relevant participating policies. (By "pooled fund", it means the whole of the assets which the relevant insurer has created on its balance sheet as a result of granting the participating policies and which it then manages on behalf of such policies.) The experience of the pooled fund over a given period is a function of the fund's investment yields, expenses, claims, etc. for that period. In general, dividend amounts feel the largest impact from the pooled fund's investment returns, which may or may not be consistent with the overall business performance of the insurer. As a matter of prudence, only when the actual experience is found to be more favourable than the actuarial and financial assumptions that the insurer has made should it declare policy dividends.

As said above, dividend amounts depend on the experience of the pooled fund. It is also worth noting that insurers normally reserve the right to determine dividend amounts. In practice, decisions on dividend amounts are based on the advice of the respective appointed actuaries and subject to the approval of the respective boards of directors. The actuaries, in making recommendations, will consider the experience of the pooled funds, the economic outlook and the equity between different classes and generations of policyholders within a single pooled fund. Besides, dividends are normally smoothed out in order to reduce large short-term fluctuations. Smoothing takes various forms and varies from one insurer to another, depending on the terms of the insurance contracts and the company policies.

5.2.6.b. Methods of Dividend Distributions

In Macao, policy dividends are generally distributed in three ways:

(a) As a cash dividend: many policyholders choose to leave cash dividends on deposit with their insurers.

(b) As a reversionary bonus, where policy benefits are permanently increased by the declared amounts (see **1.3.1b(a)**).

(c) As a terminal bonus, such that the payout value is usually targeted to be close to the asset share of the fund (the policyholders' notional share of the participating fund), taking into account the total return of the underlying assets.

Cash dividends and reversionary bonuses are usually declared on an annual basis while terminal bonuses are usually declared at policy maturity or when the policy has been in force for a given number of years. Whilst the above is a description of the typical dividend philosophy, it should be noted that the method used by each insurer may be different.

5.2.6.c. Advantages of Participating Policies

The main advantage of participating policies is that apart from availability of cash values and death benefits guarantees, the policyholder can participate in any favourable experience of the pooled fund in the form of dividends. A second advantage is that the risk of return to the policyholder is lower than with investment-linked policies, owing to the said guarantees. With investment-linked policies, the policyholder selects the underlying investments and will have the full upside if they perform well but also the full downside if they perform badly because such policies generally make no guarantees. The fact that returns on participating policies are generally smoothed is another advantage.

5.2.6.d. Transparency of Life Insurers with regard to Dividends

According to the "Guideline on the Benefit Illustration for Life Insurance Products (Other than Class C Products)", for the underwriting of participating insurance products, insurers need to follow the prescribed calculation method and disclosure format. The board of directors shall bear the ultimate responsibility for the reasonable expectations of the customers, and the appointed actuary shall have the responsibility to advise the board of directors on the understanding of the reasonable expectations of the policyholders.

For the benefit illustration of participating life insurance, guidelines will be provided in the following section (see **5.2.7a**).

5.2.7. Benefit Illustration for Life Insurance Products (Other Than Class C Products)

According to the "Guideline on the Benefit Illustration for Life Insurance Products (Other Than Class C Products)", insurers are required to provide benefit illustrations to the customers when selling participating life insurance policies (and later on at the request of the customers on the policy anniversary). The benefit illustration sets out the guaranteed and non-guaranteed policy benefits separately.

The main provisions are as follows:

(a) Basic information—The illustration shall contain the following basic information:

- (i) Name of the insurer;
- (ii) Name of the handling insurance intermediary, if any;
- (iii) Name, age and sex of proposed insured;
- (iv) Underwriting or rating classification upon which the illustration is based;
- (v) Name and type of policy;
- (vi) The benefit summary shall include policy currency, benefit description, sum assured / protection amount, benefit term, premium amount, premium mode, premium payment term and premium structure;
- (vii) Fees and charges, if any;
- (viii) The date on which the illustration was prepared.

(b) Standard requirements—The illustration shall also conform with the following requirements:

- (i) The illustration must not be misleading.
- (ii) Where premiums and benefits are illustrated, the conditions upon which these are payable must be clearly set out.
- (iii) The illustration shall show the total premiums paid, which are the

accumulated premiums actually due to be paid by the policyowner since policy inception.

(c) Explanatory notes, information and warnings—The illustration shall also include but not limited to the following requirements:

(i) To illustrate the guaranteed insurance benefits and values available upon surrender offered by the premium, if any, and it shall be clearly labeled as guaranteed.

(ii) If the illustration shows any non-guaranteed benefits, the assumptions adopted in projecting the non-guaranteed benefits shall be clearly identified.

(iii) The total premiums paid column shall be shown before the benefit payment columns, and surrender values shall be shown before the death payments.

(iv) Only those figures which are guaranteed can be highlighted (i.e. bold and/or color font).

(d) Signing—Applicant's signature is required for all pages of the basic illustration at the point of sale.

(e) Language—The illustration shall be in the same language(s) as used by the insurer in its other pre-sale literature and any other communication at the time of policy issue. The insurer shall take all necessary measures to ensure that the customers can read and understand the provided language.

5.2.7.a. Illustration for Participating Life Insurance

(a) Standard requirements—The illustration for participating life insurance should also meet the following requirements:

(i) The illustration should provide a breakdown for guaranteed and non-guaranteed amounts where the guaranteed amounts should be shown before corresponding non-guaranteed amounts, and all non-guaranteed amounts should be clearly labeled non-guaranteed.

(ii) In the illustration, guaranteed and non-guaranteed dividends/bonuses should be separately presented with an explicit message that the non-guaranteed dividends/bonuses may be zero.

(iii) The illustration should show the annual dividend (or reversionary bonus) and terminal dividend (or terminal bonus) separately. The different implications on annual and terminal dividends/bonus shall be demonstrated under the changes in assumptions, e.g. the terminal dividends/bonuses may be more volatile than annual dividends/bonuses.

(b) Assumption setting — In order to provide a meaningful indication to illustrate the implication on the non-guaranteed benefit from the variations in experience with respect to key factors, three scenarios are required for the illustration purpose, namely Current Assumed Basis, Pessimistic and Optimistic Scenarios:

(i) Under the Current Assumed Basis, the projection of non-guaranteed benefits should be based on best estimate assumptions that reflect company-specific and product-specific circumstances. Insurers are allowed to use assumptions which are more prudent and conservative than the best estimate assumptions under the Current Assumed Basis.

(ii) Pessimistic and Optimistic Scenarios are provided in the illustration to show the variability of the ultimate results. A wider range of scenarios is expected for investment strategy with higher volatility. The underlying change in investment return rate and accumulation interest rate in these scenarios are required to be disclosed in the explanation notes underneath.

(iii) Insurers are required to adopt 25th and 75th percentiles of the investment return rate in the projection of Pessimistic and Optimistic Scenarios, while keeping other assumptions (except dividend/coupon accumulation interest rates, if applicable) unchanged. Insurers could adopt a lower than 25th percentile as the Pessimistic Scenario but could not adopt a higher than 75th percentile as the Optimistic Scenario.

(c) Additional disclosure requirements—In addition to the requirements on illustration, insurers should adopt the following process in disclosing non-guaranteed benefits at the point of sale:

(i) Customers should be apprised of factors that will affect the determination of policyholders’ dividends/bonuses, including but not limited to the following factors:

(1) Claims factors – The claims factors represent the experience of mortality and morbidity of the business.

(2) Interest income factors – This may include not only interest earnings, but also outlook of interest rates, and the effects of capital gains and losses.

(3) Market risk factors – Insurers should disclose the types of market risk that would affect the determination of dividends.

(4) Expense factors – This may include direct expenses which are specifically related to the group of policies, such as commission, underwriting and policy issuance expenses and other maintenance expenses, such as premium collection expense. This may also include indirect expenses such as general overhead costs, which will be allocated to such group of policies.

(5) Persistency factors – This includes policy lapse and partial surrender experience; and the corresponding impact on investments.

(ii) Non-guaranteed rate (e.g. dividend/bonus) philosophy should include investment policies, objectives and investment strategy, which will very likely result in the variation of investment returns against the long term expectation. In most circumstances, it is the key driver leading to volatility of non-guaranteed benefits.

(iii) Insurers should highlight the investment strategy (e.g. target asset mix / geographical location / currency mix, use of derivative instruments and securities lending etc.) of the underlying investment in its product brochure. The asset classes (e.g. equities, bonds, deposits) and security categories (e.g. US Treasury, corporate bonds, high yield bonds) should also be mentioned in the investment strategy.

(iv) Insurers can disclose the exact percentage or a range of percentage for the target asset / investment mix. When there are significant changes in the investment strategy, insurers should inform policyowners of the changes, the underlying reasons and any impact to them.

(v) The insurer should provide the information of the philosophy in determination of the dividends/bonuses in the product brochure, and it shall be published the updated information on its website as well.

(vi) The insurer should disclose on its company website the non-guaranteed dividends/bonuses fulfillment ratios for each product series which has new policies recently issued. Customers should be informed the website address that shows these fulfillment ratios. It is required to at least disclose the fulfillment ratios for each product series and product type. The fulfillment ratio is calculated as the average ratio of non-guaranteed dividends/bonuses actually declared against the illustrated amounts at the point of sale. Non-guaranteed benefits may vary from product type to product type. The insurer should therefore disclose:

(1) For dividend type traditional participating products – fulfillment ratios of the accumulated dividends (including accumulation interest and terminal dividend).

(2) For reversionary bonus type traditional participating products – fulfillment ratios of accumulated reversionary bonus and terminal bonus.

But it should be noted that the past dividend experience is not an indicator of future performance of the participating products.

5.2.7.b. Illustration for Universal Life Insurance

(a) Standard requirements—The illustration for universal life insurance should also meet the following requirements:

(i) In the illustration, an explicit message should be provided to demonstrate that the crediting interest rate may be zero (or the minimum guaranteed interest rate where applicable).

(ii) In the illustration, all fees and charges (current and maximum scales) should be shown clearly, with an explicit message that the current fees and charges could be subject to change.

(b) Policy Benefit Projection - Projection should be provided on at least two bases: (1) Guaranteed or Conservative Basis; and (2) Current Assumed Basis, which should also meet the following requirements:

(i) If a policy provides a minimum guaranteed interest rate and maximum policy charges, one of the projections has to be prepared based on such guaranteed interest rate and maximum policy charges. The projection could be labeled as Guaranteed Basis. Otherwise, projected crediting interest rate at 0% p.a. (if minimum guaranteed interest rate is not available) or current charges (if maximum charges are not available) should be used, and this projection can only be labeled as Conservative Basis.

(ii) Under the Current Assumed Basis, the projection has to be prepared based on a set of best estimate assumptions whereby current best estimate crediting interest rate and current scale of charges are to be adopted. For the purpose of better managing the reasonable expectations of customers, insurers are allowed to use the assumptions which are more prudent and conservative than the best estimate assumptions under the Current Assumed Basis.

(iii) In the Illustration, an explicit message should be provided to demonstrate that all figures illustrated under Conservative Basis, Current Assumed Basis, Pessimistic Basis and Optimistic Basis are not guaranteed.

(iv) The investment returns used in the projections must be consistent with the requirements of **5.2.7a(b)(iii)**.

(v) It is optional for insurers to provide additional projections based on an assumed crediting interest rate under Pessimistic and Optimistic Bases. This optional Illustration can be shown only if:

(1) The product has substantial variable investment exposure, and

(2) In the opinion of the insurer's Appointed Actuary, the optional Illustration is not misleading to the customers.

A product which is supported by 20% or more target equity investment is considered as having substantial variable investment exposure.

(vi) This optional Illustration is allowed mainly for demonstration of variability of crediting interest rates due to variable investment exposure. It should not be used as benchmark for future crediting interest rates in misleading customers.

(c) Additional disclosure—The illustration for universal life insurance should also meet the following requirements:

(i) The insurer should disclose on its company website the historical crediting interest rates for each product series which has new policy recently issued. Customers should be informed the website address that shows these historical crediting interest rates. It is required to disclose at least the historical crediting interest rates for each product series.

(ii) key risks applicable to universal life policies (including fees and charges, lapsation risk due to zero account value etc.), different types of crediting interest rates for different cohort of universal life product (if applicable), etc. should be disclosed.

(d) Supplementary illustration—Unless otherwise specified, insurers are allowed to show supplementary illustrations on optional product feature, and the following requirements should also be met:

(i) It is appended to or accompanied by a basic illustration.

(ii) Insurers are required to provide the notes/warnings in the supplementary illustration, as well as the additional disclosures to clearly explain the underlying differences between the basic illustration and the supplementary illustration, including the premiums, assumptions and the exercise of optional product feature etc.

(iii) For the withdrawal illustration option, disclosure should be made to ensure that the customers fully understand the risk involved. For example, illustrated withdrawal amounts, which depend on non-guaranteed dividends, might not be sustainable. If withdrawal or partial surrender is used, a warning message that withdrawal or partial surrender will affect future benefits should be in place.

5.2.7.c. Premium Offset Option

(a) Insurance plan proposals sometimes project that once premiums have been paid for a stated number of years, assuming that all projected cash dividends are left on deposit with the insurers, such dividends plus the projected interests on them will be capable of funding all future premiums so that the policyholders may then choose to stop paying premiums without affecting the validity and continuity of the policies, this practice is known as “premium offset”. While this option may sound attractive to some customers, it is important to note that at any time after such an option has ever been exercised by a customer, it is possible to see unfavourable interest rate levels so that he will have to pay premiums with cash in hand again or risk policy lapse or reduced benefit amounts.

(b) In illustrating premium offset option for participating life insurance products, insurers should follow the requirements below:

(i) Projection of the premium offset option based on different scenarios, especially the adverse situation where the premiums are not offset due to a reduced dividend level, is required to be provided to the customer at the point of sale.

(ii) The illustration should not use the term “vanish” or “vanishing premium” or similar terminologies that suggest that the policy has been fully paid up, to describe a plan for using non-guaranteed elements to pay a portion of future premiums. The customer should be reminded that he/she has the obligation to pay premiums for the entire term. Otherwise, the benefit will be affected.

(iii) Clear disclosure should be made to ensure that the customers fully understand the risk involved, in particular under the scenario where the level of dividend is persistently low. In cases where future dividends are to be used to pay premiums for medical riders, the insurer is required to alert customers the additional risk brought by possible future medical cost inflation and/or reduced dividends. Insurers should provide policyholders with regular update through annual statements.

(iv) If the product offers a range of premium payment terms, the insurer should mention the shorter premium term options only as an alternative. Customers should be warned that the sustainability of premium offset depends on future dividend declaration, which is not guaranteed. Policyholders may be obliged to resume future premiums, even if the premium offset option has been activated, in case declaration of policyholder dividends is lower than the illustrated scale. While policyholder dividends play an important part in determining the future premium offset point, customers should be reminded there are a number of other factors that should be taken into consideration. These factors include dividend withdrawals, change in dividend options and addition of optional benefits to the policy.

5.2.7.d. Delivery of Illustration

(a) An Illustration must be prepared by the insurer in conjunction with each policy to be issued. This document has to be provided to the customer for review prior to signing the application form in which case the customer must sign a Declaration as stated in the attached sample in respect of the

Illustration of benefits and premiums which will be those stated in the policy. A copy of that Illustration shall be signed and submitted to the insurer at the time of policy application. A copy shall also be provided to the applicant.

(b) The Illustration will be considered as conforming to the policy only if the policy is applied for as illustrated in the Benefit Summary of the Illustration at the time of policy application. If the policy is issued other than as applied for, a revised Illustration conforming to the policy as issued shall be sent with the policy. The revised Illustration shall be labeled "Revised Illustration" and shall be signed and dated by the applicant or policyholder no later than the time the policy is delivered. A copy shall be provided to the insurer and the policyholder.

(c) If the policy is applied for other than as illustrated, the insurance intermediary shall clearly explain to that effect in writing on a form provided by the insurer. On the same form the applicant shall acknowledge that no Illustration conforming to the policy applied for was provided and shall further acknowledge an understanding that an Illustration conforming to the policy as issued will be provided no later than the time of policy delivery. This form shall be submitted to the insurer at the time of policy application.

(d) An illustration is not required for the policy without any non-guaranteed benefit.

5.2.7.e. Regular Account Statement and In-Force Illustration

(a) In order to ensure timely and accurate communication especially when changes to customer benefits are anticipated, insurers should adopt the following process in disclosing non-guaranteed benefits while the policy is in-force:

(i) Ongoing communication must be provided to policyholders at least on an annual basis on both a regular account statement and a refreshed up-to-date In-Force Illustration reflecting the latest conditions and outlook. Such communication will help manage policyholders' reasonable expectation at least once a year and minimize the gap between the original Illustration and the actual performance.

(ii) If there is no change to non-guaranteed benefits from the last In-

Force Illustration / Illustration at the point of sale, and the insurer's Appointed Actuary is of the opinion that such last In-Force Illustration / Illustration at the point of sale is not misleading to the customers under the latest market conditions and outlook, it is at the discretion of insurers to send an updated In-Force Illustration to policyholders along with annual account statements.

(iii) Monitor the non-guaranteed benefits regularly (at least annually) and check the sustainability of the non-guaranteed benefits based on the actual experience and investment outlook.

(iv) If there is any change to dividends/bonuses/crediting interest rate (or their philosophy), the insurer should inform relevant policyholders of the change of dividend/bonus/crediting interest rate by writing separately or include the information in the regular account statements with explicit reasons for the change.

(b) The regular account statement shall at least contain the information specified in the relevant requirements in **2.2.1(g)**.

(c) In-Force Illustration is required to show insured's data, policy benefits and the re-projection under the Current Assumed Basis. The policy benefit summary should be based on the policy's updated inforce status (e.g. attained age, current sum assured, etc.). The re-projection should start from the policy year in which the re-projection is performed and be based on the updated assumptions derived from the company's current view of the market outlook. Relevant information, warnings and explanatory notes should be suitably modified.

5.2.7.f. Records Maintenance

Insurers are required to maintain adequate records. In relation to complaints or disputes arising from the issue of the Illustration, the insurer shall provide these records with all relevant documentary evidences to the AMCM upon request.

5.2.8. Important Facts Statement and Benefit Illustration of Premium Financing or Life Insurance Products (Other Than Class C Products)

"Premium Financing" is the lending of funds to customers to cover the cost of insurance premium, and the policy ownership used as a collateral assignment shall be transferred to the credit institution. The Monetary Authority of Macao issued the "Guideline on the Important Facts Statement and Benefit Illustration of Premium Financing for Life

Insurance Products (other than Class C Products)". The purpose is to set the minimum requirements for risk disclosure for relevant products to ensure that customers are able to understand the potential risks posed by such products.

5.2.8.a. Important Facts Statement and Benefit Illustration of Premium Financing for Life Insurance Products

In addition to product brochure and benefit illustration, credit institutions are required to provide customers with Important Facts Statement and Benefit Illustration of Premium Financing for Life Insurance Products when the customers purchase life insurance products (other than Class C products) through Premium Financing ("PF").

(a) The "Important Facts Statement of Premium Financing for Life Insurance Products" (IFSPF) shall meet the following requirements:

  (i) The IFSPF is a required sales document, which may be either presented as a separate form, or included as a section within another point-of-sale document. Credit institutions should fully explain all the material risks arising from premium financing for life insurance product to the customer(s) before he/she completes the IFSPF.

  (ii) Credit institutions staff must sign the IFSPF to confirm that he/she has fully explained the contents of the IFSPF to the customer(s).

  (iii) The customer(s) must sign the IFSPF to confirm that they have read and understood the contents of the IFSPF, and a copy of the signed IFSPF must be delivered to the customer(s).

  (iv) Credit institutions are responsible for formulating the IFSPF. The template specified in the guideline should be adopted in terms of structure and signatures, but credit institutions may customize the IFSPF.

(b) The "Benefit Illustration of Premium Financing for Life Insurance Products" ("PF Illustration") shall meet the following requirements:

  (i) The PF Illustration shall comply with all requirements of the "Guideline on the Benefit Illustration for Life Insurance Products (Other than Class C Products)".

  (ii) Credit institutions should fully explain the material risks arising from premium financing for life insurance products to the customer(s) before he/she completes the PF Illustration.

(iii) The credit institution staff must sign the PF Illustration to confirm that he/she has fully explained the contents of the PF Illustration to the customer(s).

(iv) The customer(s) must sign the PF Illustration to confirm that they have read and understood the contents of the PF Illustration, and a copy of the signed PF Illustration must be delivered to the customer(s).

(v) Credit institutions are responsible for formulating the PF Illustration, and must adopt the format specified in the guideline, but necessary modification could be made in accordance with the particular features of insurance products and different loan repayments terms, and credit institutions may require insurers to offer technical support related to insurance products.

(vi) The insurers are responsible for the accuracy, appropriateness and completeness of the information disclosure and data related to the insurance products (including Surrender Value and Death Benefit etc.) in the PF Illustration; and the credit institutions are responsible for the accuracy, appropriateness and completeness of the information disclosure and data related to the Premium Financing (including bank loan and the projected value after loan repayments of principal and interest) in the PF Illustration.

(vii) The PF Illustration should clearly show the impact of change of the amount of recovery based on different scenarios and the risk arising from the change of loan interest rate, and separately show the remaining balance of Surrender Value / Death Benefit after loan repayments of principal and interest.

(viii) The PF Illustration is not misleading.

(c) Assumed basis—Credit institutions are required to provide the PF Illustration under Current Assumed Basis and Pessimistic Basis to show the impact of change of loan interest rate, and the following requirements should also be met:

(i) If the benefits of the policy for the entire benefit term and the loan interest rate for the entire loan repayment period are guaranteed to be fixed, the credit institutions are not required to provide the PF Illustration under Pessimistic Basis.

(ii) Provide Current Assumed Basis and Pessimistic Basis for the assumed loan interest rate. The Current Assumed Basis should use guaranteed loan interest rates or current assumed loan interest rates, and the Pessimistic Basis should use the assumed loan interest rate that meet the requirements of the guideline.

(iii) In order to manage the reasonable expectations of customers, credit institutions could adopt the assumed loan interest rate which is higher than those stipulated in the guideline, Credit institutions are prohibited to adopt assumption which is less than current loan interest rate for any scenarios in projections.

5.2.8.b. Records Maintenance

In relation to complaints or disputes arising from the issue of Premium Financing for life insurance products, the credit institutions shall provide these records with all relevant documentary evidences to the AMCM upon request.

5.2.9. Issuing Insurance Policies to Nonresidents in the Macao Special Administrative Region

According to the “Guidelines for Issuing Insurance Policies to Nonresidents in the Macao Special Administrative Region” issued by the Monetary Authority of Macao:

(a) Whenever a medical examination is deemed necessary, the proposed insured shall undergo such medical examination in the Macao SAR at the clinic of the selected doctors;

(b) For the purpose of effecting insurance cover to the proposed insured, insurers shall have in place proper company procedures to collect adequate evidence to show that the proposed insured signed the application form for the insurance in the Macao SAR;

(c) Insurers shall request the proposed insured and the insurance intermediary involved to jointly sign on the photocopy of the tourist visa (“with entry stamp”) or other travel documents, which shall act as evidence as referred to in the preceding paragraph b) and the insurance intermediary shall further declare on the said photocopy that he has inspected the respective original document.

5.2.10. Important Facts Statement for Mainland Policyholder Purchasing Life Insurance Policy in Macao

The Monetary Authority of Macao issued the “Important Facts Statement for Mainland

Policyholder Purchasing Life Insurance Policy in Macao" (the "IFS-MP"), for compliance by insurers. The IFS-MP aims to concisely and comprehensively remind Mainland customer of the factors and risks to be considered when purchasing life insurance products in Macao to enable them to make an informed decision. The provisions of the IFS-MP are as follows:

(a) The IFS-MP is applicable to all new applications for life insurance policy through any distribution channels made by customers being holders of Resident Identity Card (PRC). The customer shall not opt-out of this requirement. For the avoidance of doubt, in case of change of policy ownership or policy assignment where the new policyholders/assignees are holders of Resident Identity Card (PRC), the IFS-MP is required for the new policyholders/assignees.

(b) The IFS-MP needs only be conducted once for one policy. There is no need for Mainland customers to sign the IFS-MP for top-up or rider addition if the basic plan was taken out after implementation of the IFS-MP. On the other hand, if the basic plan was taken out before implementation of the IFS-MP, the insurer concerned should endeavour to ask the Mainland customers to sign the IFS-MP for top-up or rider addition. In case it is not possible to do so (e.g. unable to contact the customer or the customer refuses to sign the IFS-MP), the insurer may send the IFS-MP to the Mainland customer for information together with the other document(s) to be issued for the top-up or rider addition. The insurer must retain record of dispatch as proof of compliance with the requirement. For the avoidance of doubt, if an existing Mainland customer subsequently purchases a second life insurance policy, he/she has to sign another IFS-MP. That said, if the Mainland customer takes out more than one policy from an insurer at the same time, the insurer has the option to require the customer to sign on one single IFS-MP with all those product names listed at the top of the IFS-MP; or individual IFS-MP for each product taken out.

(c) Before Mainland customers fills out the IFS-MP, insurance intermediaries must explain in detail to customers the risks involved in purchasing life insurance products in Macao, and are required to go through the IFS-MP on a point-by-point basis.

(d) Mainland customers must sign on each page of the IFS-MP to confirm that they have read and understood the contents of the IFS-MP.

(e) Insurance Intermediaries and brokers/agents (if applicable) must sign on the IFS-MP to confirm that they have explained the contents of the IFS-MP in detail to the Mainland customer.

(f) A copy of the signed IFS-MP must be delivered to the Mainland customer before the delivery of the policy or together with the policy.

(g) The IFS-MP should use clear font size and type.

(h) The IFS-MP should be presented as a separate form. In case the insurer intends to include it as a separate section within another point-of-sale document (e.g. application form), prior consultation with the AMCM is required.

(i) The content template of the IFS-MP is the minimum requirement of risks disclosure, however, the insurer can add additional disclosure to accurately reflect the risks associated with their specific products.

(j) Insurers can also prepare English versions of the IFS-MP. However, the one signed by the Mainland customers must be in Simplified Chinese.

5.3. UNDERWRITING

Underwriting may be simply described as the assessment of risks for the purposes of insuring them or deciding what insurance terms should apply. Another way of describing the term is to say that it is determining the insurability of proposed risks. Since life insurance involves a **long-term** contract that **cannot** be cancelled by the insurer, we may say that normally life insurance underwriting for an individual risk can only be done **once**. It is therefore important to get it right first time.

5.3.1. Underwriting Factors

Underwriting is said to have the following two aspects:

(a) **Identifying the degree of risk**: from experience life insurance underwriters can identify degrees of risk with applications, usually under two headings:

(i) **Physical hazard**: this concerns largely objective factors that are likely to increase the risk of the insured event (death) happening. These will include obvious features such as known health dangers, including:

(1) significantly overweight;

(2) heavy smoker;

(3) substance abuse (alcohol, drugs etc.);

(4) very dangerous occupation or leisure pursuits;

(5) adverse inheritable family or personal medical history.

(ii) **Moral hazard**: this concerns rather more subjective factors surrounding the basic honesty or honourable intentions of the person to be insured. Whilst **suicide** is not a common potential problem (and is in any event covered to a large extent by policy provisions - see **4.12**), there are other considerations. For example, the person may deliberately hide important information or submit false information to obtain cover. It is, of course, less easy to determine moral hazard than physical hazard.

(b) **Classifying the proposed risk**: classifying proposed risks into appropriate categories enables the insurer to determine an equitable premium. Insurers tend to have four categories of risks, as follows:

(i) **Standard risks**: these present no abnormal features, and are perfectly acceptable at the appropriate premium according to the age and sex of the applicant.

(ii) **Sub-standard risks**: sometimes called special class risks, they are expected to produce a higher mortality rate than a group of normal lives. They are insurable, but only subject to certain considerations to be discussed in 5.3.3 below.

(iii) **Declined risks**: as the name indicates, these are risks that a particular insurer has found to be unacceptable. Insurers generally try to give cover if they reasonably can, but obviously there are some applications where health or other factors make it impossible to accept.

(iv) **Preferred risks**: not all insurers use this category, which implies an above average risk application that merits a discount or other favourable terms. This may include confirmed non-smokers or individuals who otherwise represent better prospects of long years before a claim is likely to arise.

Note: The above may be said to represent **technical underwriting**, involving an assessment of the intrinsic and perceived hazards presented by individual risks. We should also note what is called **Financial Underwriting**.

This term relates to an assessment of the sum to be insured in relation to various matters, including:

1. the perceived ability of the policyowner to meet premium obligations;

2. the degree of risk presented (and therefore whether **reinsurance might be advisable/available**);

3. accumulation of policy plans for the same person;

4. whether it is in excess of usual levels for persons corresponding to the age and

general circumstances of the applicant. We cannot say that any life insurance is **too much**, but if it is very high by customary standards this may put the insurer on enquiry.

5.3.2. Medical Reports

5.3.2.a. Non-medically Examined Business

Many life insurances are arranged on a non-medically examined basis. That is, the information supplied on the application and other circumstances surrounding the proposal (age, apparent health, sum to be insured etc.) allow the underwriter to proceed without further enquiry.

5.3.2.b. Medically Examined Business

Sometimes, however, further information is required from qualified medical practitioners. The source of such enquiry may be an attending physician (by which is meant a doctor or other qualified medical person who usually supplies or has previously supplied medical care to the applicant) or an examining physician (by which is meant a physician who conducts a medical examination at the request of the insurer, who pays for this). A number of factors need to be considered with this subject:

(a) **A sensitive subject**: it is human nature to become anxious at the thought of a medical examination. This is quite illogical, as it must be for one's good to know the truth, but that is not how most of us think. Insurers are quite aware of this and only request medical information if it is deemed really necessary. In addition, great care has to be taken not to infringe any statutory provisions regarding the protection of personal data.

(b) **Attending Physician's Statement (APS)**: this is the most frequently required medical report and the usual reasons for requesting it are:

   (i) specific medical disclosures on the application need further enquiry;

   (ii) the amount of insurance requested is high;

   (iii) the applicant is at a fairly advanced age (say, over 50).

(c) **Specialized medical questionnaire**: the examining (or attending) physician may be supplied with a separate questionnaire specifically designed to obtain information on a particular illness or condition that needs to be considered with the applicant concerned. This may relate to any of a number of conditions, ranging from blood pressure to cancer, being conditions that previously disclosed information suggests a need for further enquiry.

(d) **Confidentiality**: obviously, medical information is very private and the information obtained must be treated with the utmost confidence. However, if and when medical tests are suggested, the applicant has the right to know what tests are to be done, what the information is needed for, and (if he wants to know) the results of any tests.

5.3.3. Sub-Standard Life and Underwriting Measures

Usually for medical, but sometimes for other reasons, a particular applicant may prove to be below the required standard for acceptance at normal rates. There are a number of possible underwriting reactions to this situation, including:

(a) **Refuse to insure**: sometimes called declinature. This is a drastic measure that insurers prefer to avoid if at all possible. Most life applications can be accommodated, although sometimes the terms of the insurance may have to be more severe.

(b) **Load the premium**: increasing the premium is a very standard way of dealing with sub-standard risks. The extra premium, which may be quite modest or quite substantial according to circumstances, can turn the abnormal into insurable risks. A common form of such a method is a method of Extra Percentage Tables, which is to classify sub-standard risks into groups based on the expected percentages of standard mortality and then to impose extra premiums on individual risks that reflect the excess mortality (see **(c)** below) of these risks.

(c) **Other options**: the above two reactions are the most common, but there is wide range of possibilities, which might include one or more of the following:

(i) to create a "**debt**" on the policy (or a **lien** against the policy), which normally will reduce year by year so that it disappears on a specified date. This method is suitable where the excess or extra mortality is of a distinctly decreasing and temporary nature;

A 'debt on policy' is one of the underwriting measures which are associated with the 'numerical system of rating'. Under this system, the underwriter applies a mortality rating of 100 to the normal average healthy life, and then adds to it for adverse features (e.g. overweight) and subtracts from it favourable features (e.g. non-smoking). The excess of the final mortality rating over 100 is termed an 'extra mortality'. This extra mortality will be converted into an additional premium or a debt against the sum assured.

The decreasing debt is the most commonly used type of debt. Suppose the debt is set at $190,000 at the inception of a 20-year endowment policy for a sum assured of $400,000. Should death occur in the first year of cover, the policy proceeds will be $210,000 (i.e. $400,000 minus $190,000). The debt will reduce, and so the actual cover will increase, at the end of each of the first 19 years of cover, by $10,000. So in the last year of the policy, the cover is $400,000.

Note: allocation of bonuses will be done on the basis of the full sum assured (i.e. the nominal cover).

(ii) **specific exclusions**, perhaps of death from a particularly dangerous pastime or leisure pursuit (this would be very rare, since it tends to defeat the object of the cover);

(iii) offering a **limited plan**: short term cover may be possible, whereas the medical evidence indicates that very long-term insurance is doubtful;

(iv) decline to accept **at present**, i.e. to **defer** a decision, if the applicant is severely injured or otherwise has a (hopefully) temporary adverse medical condition.

5.4. POLICY ISSUANCE

Once the underwriting process is complete and cover has been approved, the policy can be prepared and then delivered to the policyowner. The important fact that a policy cannot be **cancelled** or **amended** after its issue without the agreement of the policyowner, once more needs to be mentioned. Issuing and delivering the policy in some respects may be looked upon as the "point of no return" for the insurer. Careful policy checking and confirmation is therefore needed before this happens.

5.4.1. Policy Delivery

This may be considered with policy issuance as the two are very closely connected. Using modern technology, policy documents can be produced with great speed and accuracy. The in-house system should create the client's record and verify that the first premium has been received. Policies are mostly in standard format within the class and plan concerned. Therefore, only variations affecting the particular client alters the routine format. All of this can be dealt with by an automated system. Some slight differences in procedure should be noted as follows:

(a) **Individual policy covers** (including annuities): the production and delivery is straight-forward, delivery normally usually being made by the **marketer**.

(b) **Group policy covers**: here the process involves enrolling individual employees (or other group persons). The technology system must therefore produce not only the master policy, but also a certificate and perhaps an enrolment card for each insured person. Each such person receives a certificate and completes an enrolment card, the process normally being overseen by the **insurance intermediary** or **group representative**.

5.5. AFTER SALES SERVICE

The conservation of existing business has been mentioned before (see **5.2.3a(a)**). This, for reasons given, is very important and the quality of after-sales service is a vital element in this area. Such service is within the responsibilities of Customer Service personnel (see **5.1.1e** above), whose department might well now be called Policyowner Service, or POS. By way of reminder, the duties of **POS** may include:

(a) Correspondence: letter and other communication with customers.

(b) Documentation: duplicate policies, surrenders, plan converting etc.

(c) Premium payments: handling all aspects of this.

(d) Benefit administration: cash values, policy loans and dividends.

(e) Policy changes: see below.

5.5.1. Policy Changes

These changes may be relatively trivial, amending some administrative detail, or may have a significant effect upon contract terms. The changes usually requested include **changing** the

(a) type of insurance cover: obviously of considerable significance;

(b) address: of the policyowner or beneficiary, for example;

(c) beneficiary: clearly this must be a permissible change, under contract terms;

(d) amount of cover: after any due underwriting consideration;

(e) owner of the policy: another obviously important change.

Note: All changes must be carefully processed. The change requested may seem very straightforward, but there is always the possibility that it will have legal or other implications, ranging from underwriting or reinsurance matters even to potential attempted fraud (**money laundering**, etc.).

5.6. CLAIMS

With General insurance, claims are only expected under a small proportion of policies. There the cover is "in case" there is need and generally speaking neither party wishes to experience a claim situation. The latter may be true in some respects for Life insurance, but there a claim (except for **term insurances**) is inevitable if the policy is kept in force. Indeed, with many life insurance having a **savings** element, the policyowner often looks forward to making the claim. Claims may be considered under three headings, as follows:

5.6.1. Maturity Claims

Mostly concerning **endowment insurance**, these involve situations where the life insured is still living and (if also beneficiary) able to collect the proceeds personally. With these, as with all procedures dealt with under this Chapter, each insurer may have their own system, but typically the following considerations arise with maturity claims:

(a) **Near the date**: a month or so in advance of the date the insurer writes to the policyowner, in order to:

- (i) remind him of the maturity date;
- (ii) state the amount payable;
- (iii) list any requirements for payment;
- (iv) enclose a relevant form of release.

(b) **Legal title**: the insurer can only deal with the person having legal title to the policy proceeds. Also, the original policy will be required. This is an important document of title and only assignments duly recorded can be recognized.

(c) **Adjustments**: the payment may have to be subject to deductions for any outstanding items, such as policy loans, unpaid premiums and interest owing. Of course, any third party interest has to be respected and processed in an appropriate manner.

(d) **Proof of age**: if the policy is marked "age not admitted" this means that formal proof of age was not given at policy inception. Some insurers may not require confirmation of age if the policy has matured, but it should be requested because **misstatements of age** could have an impact on the policy benefit (see **4.8**).

(e) **Unpaid maturities**: a suitable monitoring and follow-up procedure must be in existence for any maturity claims where the policyowner does not respond to **(a)** above.

5.6.2. Death Claims

Maturity claims, for obvious reasons, are normally processed in a "happy" atmosphere. Death claims on the other hand inevitably have a serious and sometimes tragic background. Whilst this must not intrude unduly into the professional way in which the claim is processed, insurers and insurance intermediaries should be sensitive to the situation. The specific points needing attention with such claims are:

(a) **Claim entitlement**: people who are possibly entitled to a policy's death benefits include the surviving policyowner in the case of a third party policy (see **Glossary**), the personal representative of the policyowner-insured, an assignee and a trustee. Where a policy is expressed to be payable to a third party, named or unnamed, without creating a trust or effecting an assignment, he will normally have no right to sue under the contract and it is the policyowner's successors in title who can enforce the contract. That said, where paying the third party has been made an essential term of the contract, payment to him will discharge the insurer of policy liability so that whether or not the paid third party may, in certain circumstances, have to account to the policyowner's personal representative will not concern him.

(b) **Date of death**: this must be established, as it can affect the amount payable e.g. with **decreasing term** insurance, and with any **dividend/ bonus** calculations. Indeed, with **term** insurance, the policy could have expired.

(c) **Proof of death**: normally, this is fairly easy to obtain, with the death certificate (the **original** document must be produced). Problems may arise over death certificates, however, where death arises or is alleged to have arisen overseas. This has on occasions been a particular area for fraud.

(d) **Cause of death**: this will be shown on the death certificate and it may be important for a number of reasons, including:

   (i) suicide: happening within the suicide exclusion period (see **4.12** above);

   (ii) accident: the policy may be subject to an **ADB rider** (see **3.2.1(a)** above);

(iii) Suspicious or surprising: death shortly after the policy was issued, or where the cause would normally develop over a longer period than that for which the policy has been existence, will put the insurer on enquiry. **Fraud** must always be a possibility in such circumstances. Even if fraud does not apply, the policy may still be within a **contestable period** (see **4.2** above);

(iv) murder: in most cases this will not affect the validity of the claim, but if the murderer is proved to have been the **beneficiary**, the law will not allow the murderer to benefit personally.

(e) **Presumption of death**: where no death certificate can be issued and it is assumed the life insured has died, this may have to be resolved by the **court**.

(f) **Proof of age**: see comments in **5.6.1(d)** above. Normally, proof of age is easily obtained by producing the **deceased's birth certificate**, or **I.D. card** or **passport**.

5.6.3. Surrender

Many of the considerations arising with **maturity claims** have relevance here, as the claimant is still living. Specifically, areas needing attention are:

(a) **Proof of title**: those who are possibly entitled to the **cash value** include the policyowner, an assignee and a trustee (or a trustee-in-bankruptcy).

(b) **Adjustments**: unpaid premiums, policy charges, policy loans and interests must be taken into account;

(c) **Discharge**: an appropriate release is obtained. Care must be taken to protect any **assignee** or **third party** interest in an appropriate manner;

(d) **Other enquiries**: the insurer or insurance intermediary should take special care with applications for surrender of the policy. Obviously, the policyowner has every right to discontinue cover, but it may be helpful and productive to make discreet and courteous enquiries so as to detect potential attempted fraud, e.g. money laundering.

Sometimes, the insurance meets a real need for the client, but he meets unexpected life situations and his first thought is to cancel his insurance. That may not be in his best interests and other more suitable alternatives may be available (policy **loan**, use of **nonforfeiture** provisions, etc.).

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GLOSSARY

Absolute Assignment An assignment which is permanent, the assignee becoming the new policyowner. **4.9**(f)(i)

Accelerated Death Benefits These are life insurance death benefits which may, under certain circumstances (e.g. life threatening health situations), be payable in part or in full in advance of death of the life insured. **3.3**

Accident Benefits Additional benefits that may be added to a life policy by means of the Accidental Death Benefit (ADB) or Accidental Death and Dismemberment (AD&D) Rider. **3.2**

Accidental Death and Dismemberment (AD&D) Rider The accidental death benefit under this rider is a sum equal to the face amount for the policy (providing what is termed a "double indemnity"). The dismemberment benefit is payable in the event of, say, loss of limbs and/or sight. **3.2**

Accidental Death Benefit (ADB) An addition to a life policy, providing a double benefit should the insured life die from an accident. **3.2.1**(a)

Accounts Department An important administrative department of an insurance company, responsible for the company's income and expenditure, and producing financial reports required by various laws. **5.1.1**(a)

Actively-at-Work Provision A provision in group life insurance that to be admitted to the plan, the employee concerned must have been present at work on the day when coverage became effective. **2.3**(f)

Activities of Daily Living (ADLs) Basic human needs and functions (e.g. washing, dressing etc.). Inability to perform these could be grounds for a payment under a Long Term Care Benefit rider. **3.3.2**(c)

Actuarial Department An extremely important department for life insurers. An actuary must be appointed for life insurers, by law, and the work of this department is significant (amongst other things) in product pricing, and especially in the required valuation of the company's assets and liabilities. **5.1.1**(b)

Adequate (Premiums) One of the classic criteria usually applied to life insurance premiums, i.e. sufficient premiums to meet claims and other obligations under the contract. **1.3.1**(a)

After Sales Service The important process of maintaining good communications and relations with policyowners to assist with the conservation of existing business. **5.5**

Age Next (Last) Birthday An important detail obtained from the application, having a significant effect on the premium to be charged. **5.2.1**(b)(iii)

Age-Related Limitation Whole life insurance where the premium is no longer payable after a specified age. **2.1.3**(a)(iii)

Agency Training and Control An important administrative department of an insurance company, especially bearing in mind the necessity for training of an extensive field staff. The department will be responsible for training programmes and professional examinations.**5.1.1**(c)

Annually Renewable Term (ART) Insurance An alternative title for Yearly Renewable Term (YRT) Insurance. **2.1.1b**(a)

Annuitant The person entitled to receive annuity payments. **2.1.4**(a)

Annuity A series of periodic payments to a designated individual throughout the lifetime of the annuitant or for an agreed period, in return for a single payment or series of payment made in advance. **2.1.4a**

Annuity Certain A variation of an annuity, where the benefit is paid for a fixed number of years, whether the annuitant lives or dies during that period. **2.1.4a**(c)

Anti-Selection Occurs where the "bad" risks tend to continue with the insurer, whilst the "better" risks tend not to. This is a real danger with the natural premium system. Also known as **Selection Against the Insurer**. **1.3.2a**(c)(ii)

Application (form) The more usual term in Macau life insurance for a proposal form, by means of which preliminary information is obtained regarding a proposed life insurance. **5.2**

Approved Nursing Home A nursing home as specified in the Long Term Care (LTC) Benefit rider, as a type of care acceptable to the cover provided. **3.3.2**(b)

Assignee The person to whom the policyowner's interests in the contract has been assigned. In life insurance, an assignee does not need to have insurable interest. **4.9**

Assignment The transfer of interests in the contract to a third party, with or without consideration. **4.9**

Assignor The person assigning an insurance policy to the assignee. **4.9**

Attained Age The age of the life insured at the time the insurance is effected/renewed.**2.1.1b**(b)

Attending Physician's Statement (APS) An "attending physician" is a doctor or other qualified medical person who has previously supplied medical care to the applicant. An APS may be required if information disclosed indicates that further medical information is needed, or for other abnormalities (e.g. relatively advanced age of the applicant, relatively high amount of insurance requested). **5.3.2b**(b)

Automatic Dividend Option If the policyowner gives no indication of his preference regarding his dividend options, the policy provides for a particular option to be applied automatically. Often such an option means that paid-up additional insurance is purchased with the dividend or leaving the dividends with the insurer to earn interests. **4.10 Note**

Automatic Premium Loan (APL) Provision A policy provision to the effect that in the event of non-payment of a due premium, and in the absence of other instructions, the cash value of the policy is used to pay the premium and keep the policy in force. **4.5**(a) **Note**

Basic Functions Essentials formats of life insurance, e.g. benefit payable on death in a specified period, payable on death at any time, payable on a specified date or earlier death, and monthly payments in return for a lump sum "premium". **2**(a)

Basic Plan Cover for the expenses of medical treatment and hospitalization, under a medical benefits insurance. **3.4**(a)

Basic Questions Fundamental enquiries that should be made when arranging life insurance, i.e. "What is the insurance for?", "How much premium are you willing and able to pay?" and "How much life insurance do you need?" **2**(c)

Basic Variables Modifications to the basic functions of life insurance, e.g. convertibility, renewability, PAR or NON-PAR benefits or additional provisions. **2**(b)

Beneficiary The person nominated to receive the policy benefit in the event of a claim under the policy. **4.4**

Beneficiary Designation The naming of a designated beneficiary in the policy documents. **4.4**

Benefit Policies Policies which do not pay claims on an indemnity basis, but on a stipulated benefit basis (e.g. in life insurance policies). **1.2.3(b)(i)**

Binding Premium Receipt A premium receipt which confirms that cover temporarily applies. It therefore fulfils some of the features found with cover notes in general insurance. The cover with such receipts is temporary, with provisions which will enable the insurer to come off risk earlier than the end of the specified period, if necessary. Also known as **Unconditional Premium Receipt** and **Temporary Insurance Agreement (TIA)**. **5.2.2**(b)

Bonuses The approximate equivalent of dividends with participating policies, bonuses are reversionary amounts added to the ultimate benefit payable under a with-profit policy. They are usually declared as a percentage, which is applied to the sum insured of the policy. **1.3.1b**(a) **Note 1**

Business Needs The use of life insurance contracts to meet various business situations, e.g. key person's insurance, partnerships, employee benefits etc. **1.1.1**(b)

Cash Value Also known as Surrender Value. The amount payable to the policyowner should he decide to terminate the policy prematurely. Not all policies will have a cash value, e.g. term insurances. **1.3.2b**(c)(i)

Cause of Death A potentially important detail with death claims, possibly affecting the validity or amount of the claim, e.g. an early suicide, death from accident etc. **5.6.2**(d)

Certificate See **Enrolment Card**. **5.4.1**(b)

Claims A crucial area for life insurers. The department concerned will be involved in all aspects of claims investigation, processing and settlement. **5.1.1**(d)

Class Designation A description of beneficiaries by group association rather than by name, e.g. "my children", "my brothers and sisters" etc. **4.4**(a)

Customer Service See **POS.** **5.1.1**(e)

Collateral Assignment An assignment which is likely to be temporary, as collateral security for a loan. The assignee's interest with such an assignment is limited to the amount of the loan plus interest. **4.9**(f)(ii)

Collateral Security The collateral assignment of a life policy provides collateral security for a loan given to the policyowner. **4.9**(f)(ii)

Conditional Premium Receipt A receipt for premium which confirms that insurance will begin from the time of the application, provided the life insured is subsequently found to have been insurable on standard terms at that time. **5.2.2**(a)

Conservation The retention of existing business, i.e. avoiding policy lapses and surrenders. **5.2.3a**(a)

Contestable Period The period of time specified in the **Incontestability Clause** during which the validity of the policy may be contested. **4.2**，**4.7**(c)(v)

Contingent Beneficiaries A beneficiary who inherits if the primary beneficiary is not living when the policy proceeds become payable. **4.4**(b)

Continuous Premium Whole Life Policy Whole life insurance where the premiums continue to be payable throughout the lifetime of the life insured. **2.1.3**(a)(i)

Contribution An insurance principle which means that two or more insurers covering the same insured for the same loss share that loss rateably. However, this is in providing an indemnity, to which life insurance is not subject. The existence of more than one life insurance does not affect the amount payable by the individual insurer. **1.2**(e)

Contractholder An insurer who issues an annuity contract or a person who applies for and purchases an annuity contract. **2.1.4a**

Contributory (Plans) Group life, or employee benefit schemes where the premium is paid in part by the employees. **2.3**(c)

Convert (Conversion) Changing a policy plan in accordance with permitted policy provisions, or by mutual consent with the insurer. **2**(b)(i)，**2.1.1b**(b)

Convertible Term Insurance A term insurance with rights to convert the policy plan into permanent cover, without evidence of insurability. **2.1.1b**(b)

Cooling-Off Rights A life insurance policyowner has the right to cancel the insurance contract within the prescribed timeframe. **5.2.4**

Cooling-Off Period A prescribed period which allows a customer to change his/her mind about a life insurance contract, during which he/she may cancel the policy with a full refund of premium. **5.2.4**

Cost of Living Adjustment (COLA) A rider providing for periodic increases in the disability income benefits being paid to a disabled insured. The increases are linked to a recognized independent index, such as the Composite Consumer Price Index. **3.6.1**

Cover Note A term from general insurance, indicating a document giving formal evidence of the existence of insurance, the approximate equivalent in life insurance being the **Binding Premium Receipt**. **5.2.2 Note**

Credit Life Insurance A form of decreasing term insurance on a group basis arranged by lending institutions to cover the outstanding balance of loans should customers die. The benefit is payable direct to the lending institution. **2.1.1a**(b)(i)

Critical Illness (CI) Benefit A rider allowing a stated portion of the death benefit to be paid to a policyowner-insured suffering from specified diseases diagnosed, with a life expectancy of 12 months or less. **3.3.1**

Customer "**Prospecting**" The search for new customers for insurance, either from existing contacts or by other marketing endeavours. **5.2.3a**(b)

Customer Declaration for Policy Replacement (CDPR) An important document that must be completed and signed before a customer agrees or makes a decision in relation to the purchase of a new life insurance policy to replace an existing one. It is part of the concern of the insurance industry to preserve high ethical and professional standards, and to control inappropriate replacement of insurance policies. **5.2.5**(c)

Customer Service The range of activities a company engages in to keep its customers satisfied.

It involves attention to the corporate culture (customer-orientated), adequate and appropriate powers and responsibilities given to front-line employees and systems designed to monitor customer satisfaction, and providing measures to achieve these goals through training and technology, etc. **5.2.3a**

Date of Death An important point to be established with life insurance death claims, especially with term or decreasing term insurances, where the validity or amount of the claim may be affected. **5.6.2(b)**

Days of Grace See **Grace Period**. **4.3**

Death Benefit The basic amount payable under the insurance in respect of the death of the life insured. This may be subject to additional factors, e.g. accidental death benefits etc. **2.2.1**(f)

Death Claims The most common type of claim with life insurance, requiring detailed processing and verification of matters such as date of death, cause of death, proof of death etc. **5.6.2**

Debt / Lien An underwriting measure with a sub-standard risk, whereby a "debt" is placed against the face amount, possibly reducing to extinguishment as the policy years go by without a claim. **5.3.3**(c)(i)

Declaration The part of an application form signed by the prospective policyowner, confirming various statements and understandings, including the existence of a cooling-off period. A similar declaration appears on Illustration Documents, confirming understanding of the information supplied. **5.2.4**(f)

Declinature Refusal to insure a given risk. This is a last resort, as insurers prefer to offer terms if at all possible, but clearly there will be some risks which are uninsurable. **5.3.3**(a)

Declined Risks A given risk which is impaired to such an extent that a particular insurer is refusing to insure it. **5.3.1**(b)(iii)

Decreasing Term Insurance A term insurance where the face amount reduces each year or at specified times. The cheapest form of life cover, useful to meet a diminishing temporary need, e.g. a mortgage loan which is being repaid over a period of years. **2.1.1a**(b)

Defer Decision An option for the life underwriter where a risk is not insurable owing to a temporary condition (e.g. accident injuries). The risk is not permanently refused, but it will need reassessment at a later date. **5.3.3**(c)(iv)

Deferred Annuity An annuity where the payments begin at some specified future time or specified age of the annuitant. **2.1.4a**(b)

Disability Income Benefit A policy rider providing an income to the policyowner-insured during the insured's period of disability. **3.1.2**

Disability Waiver of Premium Rider An endorsement to a life policy, offering to waive premiums otherwise payable whilst the insured person is totally disabled, keeping the life insurance in full force. **3.1.1**

Dismemberment The loss of one or more limbs, but within the AD&D Rider provisions the term also applies to loss of sight. **3.2.1**(b)

Dividend Options The choices available to the policyowner of a participating policy, for which dividends have been earned. These choices include: receiving the dividends in cash, applying them towards future premiums, leaving them to earn interest with the insurer etc. **4.10**

Dividends Amounts declared to holders of participating policies on the basis of the experience of the pooled fund to which those policies are connected and which the insurer concerned manages. Usually expressed as a percentage of the premium paid. **4.10**

Divisible Surplus That amount of an insurance company's surplus (i.e. that portion of the owners' equity which represents the excess of its assets over its liabilities and capital) which is available for distribution to the holders of its participating policies (or with-profit policies) in the form of dividends (or bonuses). **1.3.1b(a)**

Double Indemnity Benefit An additional benefit to be paid, equal to the policy face amount, should death occur as a result of an accident. An alternative name for **Accidental Death Benefit**. **3.2.1(a) Note 1**

Duty of Disclosure It requires the parties to a proposed insurance contract to reveal to the other, before contract conclusion, all material facts whether these are requested or not. **1.2.2**

Employee Benefit Plans Group life insurance for employees within the same organization or industry. **2.3**

Endowment Insurance Life insurance that will pay the face amount when the life insured survives a fixed period of years (at maturity) but upon death in case he dies within the period. **2.1.2**

Enrolment Card (alternatively **Certificate**) Documents used with group life insurances, providing evidence of cover to individual insured persons. Separate from the **Master Policy**. **5.4.1(b)**

Entire Contract Provision A life policy provision that defines the whole set of documents constituting the insurance contract. **4.1**

Equitable/Fair (Premiums) One of the classic criteria for life insurance premiums, i.e. each policyowner is paying an amount in line with the risk and contracted benefit involved. **1.3.1**(b)

Equities Ordinary shares in a proprietary company. As an investment vehicle, they carry a higher risk than some types of investment, but usually offer long-term growth prospects. **2.2.2**(b)

Ex Gratia Payment A payment, usually of a claim, which is made "out of grace or favour", i.e. where there is no legal liability to make such payment. **4.12 Note 2**

Examining Physician The qualified medical professional conducting a medical examination on behalf of the insurer. **5.3.2**(b)

Excepted/Excluded Perils A cause of loss excluded from an insurance cover. **1.2.3**(a)(ii)

Expenses The loading to be added to the net premium, to cover all additions necessary when calculating life premiums. **1.3.1a**(c)

Extended Term Insurance An option under non-forfeiture benefits provision of a permanent life insurance policy, whereby the cash value is used as a single premium to purchase a substitute term insurance cover for the same amount as the original face amount, and for such period as the amount of cash value can provide. **4.5**(b)(iii)

Face Amount / Sum Insured / Sum Assured Specified on the first page of a life insurance policy, it is the amount the policy promises to pay upon death of the life insured. **1.3.2b**(c)(iv)

Family Income Insurance A variation of decreasing term insurance which pays the life insured's surviving spouse or dependant a stated monthly benefit in the event of death, for the remainder of a specified period of time. **2.1.1a**(b)(ii

Financial Underwriting Underwriting concentrating more on the implications arising from the amount of insurance requested, e.g. whether the policyowner can meet premium obligations, whether reinsurance may be required, whether the amount seems excessive by normal criteria with such class of risks. **5.3.1**(b) **Note**

First Beneficiary See **Primary Beneficiary**. **4.4**(b)

Fixed Interest Investments Fund that may be used in unit-linked insurances. **2.2.2**(b)

Fully Earned When an amount of premium for a particular period in the past is said to be fully earned, that amount is taken as corresponding to the risk run by the insurer during that period, so it (the earned or fully earned premium) contains no "surplus" to provide for a cash value or other benefit common with the level premium system in many types of life insurance.**1.3.2b**(b)

Grace Period A period of time after a premium is due, during which the premium may be paid and cover kept continuous, without penalty. Also known as **Days of Grace**. **4.3**

Graded-Premium Policy A variation of whole life insurance, where the premium increases on a regular basis, e.g. every three years, but the face amount remains unchanged. **2.1.3(c)**

Gross Premium The premium in life insurance after taking into account the three rating factors of mortality, interest and expenses. **1.3.1a**(c) **Note**

Group Insurance Life insurance of a number of persons forming a recognisable group, e.g. employees of a particular employer. **2.3**

Guaranteed Annuity An annuity which guarantees that annuity benefits will be paid until the annuitant dies and will be paid for at least a certain period, even if he does not survive that period. Also known as a **Life Income With Period Certain**. **2.1.4a(c)**

Guaranteed Insurability Option (GIO) Under this rider, the policyowner has the right to purchase additional insurance of the same type as basis life insurance plan either on specified option dates, at specified ages, or when a specified event happens, without having to supply evidence of insurability. **3.5.1**

Immediate Annuity An annuity where the annuity benefit payments commence one annuity period (i.e. the time span between one scheduled payment and the next in the series) immediately following the purchase of the annuity. **2.1.4a**(a)

Incontestability Provision A provision in a life insurance or annuity policy whereby after an initial period the insurer may not contest the policy (except, in Macao, where fraud is alleged). **4.2**

Increasing Term Insurance Term insurance that provides a death benefit that increases automatically at specified intervals over the period of insurance. The increases may be linked to an agreed index (e.g. the Composite Consumer Price Index). **2.1.1a**(c)

Indemnity Restricting insurance payment to an exact financial compensation, the principle of indemnity is not normally applicable to life and personal accident insurance. **1.2**(d)

Indemnity Corollaries Sub-principles of the parent principle indemnity, i.e. contribution and subrogation. As with indemnity, neither is likely to have any application with life insurance policies. **1.2.3**(c)

Inflation An important economic consideration, since its effect can drastically reduce the real value of life insurance over an extended period. Planning a life insurance programme should therefore take this into account. **3.6**

Insurability Benefits Two types of insurability benefits are offered as riders to life insurance policies, i.e. **Paid-up Additional Insurance** and **Guaranteed Insurability Option**. **3.5**, **3.5.1**

Insurable Interest The legal right to insure an individual's life. It is required at the commencement of any such insurance, although it is not needed when the insured event happens. **1.2.1**

Insured Perils Causes of loss covered by a particular policy. **1.2.3**(a)(i)

Interest With long term insurance, where the policies are not cancellable and the fixed premium cannot be changed, the anticipated interest earnings on premiums is a critical factor in determining premium rates. **1.3.1a**(b)

Investment One aspect of certain life insurance covers, making financial provision for the future by investing in a life insurance policy, especially one which participates in the insurer's profits. **1.3.1a**(b)

Irrevocable Beneficiary A beneficiary who cannot be changed without his/her consent.**4.9**(e)(i)

Joint-Life Basis A life insurance policy that grants cover on a joint-life basis insures the lives of two (or more) persons. Such a policy will pay either on the first or last death, as specified. **2.1.1a**(b)(iii)

Lapse It is the kind of termination of a life insurance policy that will result from the non-payment of a due premium within the permitted time period (including the Grace Period). **4.7**(c)

Level Premium (Pricing) System The normal method of charging for life insurance, whereby (for the same benefit) the annual premium is established at inception and does not vary throughout the life of the policy. **1.3.2b**

Level Term Insurance A term insurance that offers a death benefit that does not change during the term of the policy. **2.1.1a**(a)

Life Income Annuity With Period Certain See **Guaranteed Annuity**. **2.1.4a**(c)

Life Insurance An insurance contract providing a benefit payable upon the death of the life insured or upon survival to a stipulated date. **1.1**

Life Office Management Association Inc. (LOMA) U.S. life insurance educational organization, noted for its professional examination for life insurance personnel. **1.1**

Limited Plan An underwriting option for substandard risks, when it is proved that a certain risk is not insurable under a proposed plan, but is insurable under another insurance plan.**5.3.3**(c)(iii)

Linked Long Term Insurance A life insurance plan where the value is directly linked to investment performance. Also known as an "Investment-Linked Assurance Scheme Policy". **2.2.2**

Living Benefit Riders Another name for **Accelerated Death Benefits**. **3.3**

Loading A sum added to life insurance policy's net premiums to cover all the insurer's cost of doing business, e.g. commissions, etc. **1.3.1a**(c)

Long Term Care (LTC) Benefit A rider allowing a stated portion of the death benefit to be advanced to a policyowner-insured who requires constant care for a medical condition. **3.3.2**

Market Value Adjustment (MVA) A permitted right of insurers under the cooling-off initiative to make an adjustment with the refund of premiums, in relation to linked policies and non-linked single premium life insurances. **5.2.4**(e)(ii)

Marketing An important department for a life insurer, dealing with such matters as product research, promotion, advertising, public relations and market research, etc. **5.1.1**(f)

Master Policy The primary insurance document with a group life insurance plan. **5.4.1**(b)

Material Facts A fact that would influence the judgement of a prudent underwriter in determining whether to accept a risk or on what premium to accept it. **1.2.2**

Mature In relation to an endowment insurance policy, it means the policy becomes payable upon the life insured's survival of the period of insurance. **2.1.2**

Maturity Claims Claims under endowment type insurances, where the full number of years specified have been completed and the life insured is still living. **5.6.1**

Medical Application A proposal for life insurance where a physical medical examination of the life to be insured is required. **1.2.2**(c)

Medical Benefits Benefits traditionally (and may still be) insured under a general insurance policy, but which may be added as a rider to a life insurance. Such benefits are likely to consist of a basic plan, with an optional medical plan and be subject to certain major exclusions. **3.4**

Medical Reports Reports from qualified medical professions in cases where this is deemed necessary, especially with insurances normally on a non-medically examined basis. **5.3.2**

Medical Tests These may be needed in connection with a life insurance application. **1.2.2**(d)

Misstatement of Age/Sex The policy provisions regarding errors of this nature. Most policies provide that in such circumstances the face amount be adjusted to reflect that which would have applied to the correct age/sex. **4.8**

Money Laundering The illegal practice of "cleansing" money obtained illegally (e.g. through drugs trafficking) by the use of business or financial instruments such as life insurances. Insurers must take great care in trying to detect and eliminate such practices. **5.5.1 Note**

Moral Hazard Rather more subjective features concerning human attitudes, behaviour and conduct which may have a bearing on the risk. **5.3.1**(a)(ii)

Mortality An important consideration in determining life insurance premium rates. It refers to the rate at which insured lives may be expected to die. The term, therefore, may more accurately be described as **Rate of Mortality**. **1.3.1a**(a)

Mortality Tables Published statistics on mortality, indicating the expected rate of mortality at given ages. **1.3.1a**(a)

Mortgage Indemnity Insurance A type of insurance that protects a mortgagee against the risk of the value of the mortgaged property falling beneath, say, 75% of the original valuation for any reason. **2.1.1a**(b) **Note**

Mortgage Redemption Insurance A popular form of decreasing term insurance, with the benefit linked to the outstanding balance of a mortgage loan. Often issued on a joint-life basis, payable on the first death. **2.1.1a**(b)(iii)

Multiple-Employer Groups Group life insurance where different employers participate in a single plan covering their respective employees. **2.3**(d)

Natural Premium (Pricing) System A system of life insurance premium charging, whereby the premium each year changes according to the age of the insured life and other features. This is unworkable from a practical point of view and may be considered an academic concept. **1.3.2a**

Natural Risk The intrinsic risk presented by the life insured at a particular point in time, related to the person's age, health and other factors. **1.3.2a**(a)

Net Cash Value Although a policy with cash value may allow the policyowner to cancel the policy in return for a surrender value, or to buy a substitute insurance cover using the cash value as a single premium, the amount actually available for any one of these purposes (i.e. the Net Cash Value) may not equal the cash value for a couple of reasons. The Net Cash Value is calculated by making adjustments for amounts such as paid-up additions, outstanding policy loans and interests, and advance premium payments. **1.3.2b**(c)(iv)

Net Policy Proceeds The entitlement of an assignee under a life insurance policy, i.e. his interests are subordinate to those of the insurer regarding overdue premiums, outstanding policy loans and accrued interests. **4.9**(c)

Net Premium Sometimes called the **Pure Premium**, this may be described as the basic premium to be charged exactly to cover the cost of death claims arising under normal statistical expectations, with no allowances for expenses or profit. **1.3.1a**(b) **Note**

Non-Contributory Plans Group life, or employee benefit, plans where the employees do not contribute premiums. **2.3**(c)

Nonforfeiture A consequence of the level premium system and policies having a cash value. In the event that "renewal" premiums are not paid, the policy does not lapse (become forfeit), because the cash value may be used to keep the policy in force. **4.5**

Nonforfeiture (Options) These are the choices available to the policyowner who does not wish to continue payment of premiums under a policy which has a cash value, that will prevent the policy from lapsing. These options include: taking the surrender value in cash, accepting reduced paid-up insurance and accepting extended term insurance in substitution of the original plan. **4.5**(b)

Nonforfeiture (Provisions) Policy provisions that provide **Nonforfeiture Options**. **1.3.2b**(c)(iii)

Non-Medical Application A request for a life insurance which (subject to certain stipulations) does not have to be accompanied by a physical medical examination of the life to be insured. **1.2.2**(b)

Option Dates Dates specified under a **Guaranteed Insurability Option** on which additional insurance may be purchased without evidence of insurability. **3.5.1**(a)

Optional Medical Plan Available cover under a medical benefits insurance, mostly consisting of increased limits for the various headings of cover under the basic plan. **3.4**(b)

Paid-Up Additional Insurance A participating policy normally allows the policyowner to use any declared dividend as a net single premium to purchase Paid-Up Additional Insurance for the same plan and in whatever face amount the dividend can provide at the attained age of the life insured. **4.10**

Paid-Up Insurance Insurance for a reduced amount, with no further premiums to pay but otherwise on the same terms as the original insurance. Another consequence of the level premium and cash value system, paid-up insurance is possible because the premium is not "fully earned" under the former system. **1.3.2b**(c)(iv)

PAR/NON-PAR The customary abbreviation for policies that are participating or non-participating. **1.3.1b**(a)

Participating/Non-Participating Also known as **With-Profit** or **Without-Profit**, the terms indicate whether the policyowners can expect to share in the divisible surplus of the insurer or not. **1.3.1b**(a)

Pension A monthly or other periodic payment to a person in retirement, until death. **2.1.4**(b)

Permanent Insurance (Plan) A life insurance plan which is effective throughout the life insured's lifetime provided premiums continue to be paid, and which contains a savings element. **2.1.1b**(b)(iii)

Personal Needs An important aspect of life insurance for the individual, i.e. to make provision for various life needs (e.g. children's education, personal retirement, provision for dependants with premature death etc.). **1.1.1**(a)

Personal Representative The executor of a will or the administrator of the estate of a deceased person. **5.6.2**(a)

Physical Hazard The objective measurable factors that are likely to increase the risk of the insured event happening, such as obviously known health dangers (e.g. heavy smoking, serious overweight etc.). **5.3.1**(a)(i)

Policy Changes One of the duties of the POS (Policyowner Service Department), including such matters as minor amendments of address to significant issues such as change of beneficiary, and assignments. **5.5.1**

Policy Delivery After policy preparation, delivery of individual policy covers is normally by the marketer. Group policies involve a master policy for the employer or group concerned, with perhaps certificates and enrolment cards for each insured person, delivery being overseen by the marketer or group representative. **5.4.1**

Policy Issuance The process of preparation, checking and delivery of the policy document. An important operation, since policies cannot be cancelled and may be assigned. **5.4**

Policy Loan A policy that generates a cash value usually allows the policyowner to borrow money (Policy Loan) from the insurer against the security of the cash value. **1.3.2b**(c)(ii), **4.6**

Policy Revival See **Reinstatement**. **4.7**

Policyowner-Insured Where the life insured and the policyowner are the same person, this person can be referred to as a policyowner-insured. 3 **Note**

POS (Policyowner Service) The Customer Service Department, responsible for such matters as documentation, correspondence, premium payments etc. **5.1.1**(e), **5.5**

Pre-Existing Conditions A common exclusion for medical benefit policies to exclude expenses relating to medical problems that existed before the insurance commenced. **3.4**(c)(i)

Preferred Risks Above average risks, constituting highly desirable types of business for the insurer (e.g. confirmed non-smokers in excellent health). **5.3.1**(b)(iv)

Premium The amount payable by the policyowner for (usually annual) coverage. Classic understandings of life insurance indicate that life premiums should be adequate and equitable. **1.3**

Premium Rates (Life Insurance) The normal or standard premiums applicable, according to age and sex, to life insurance. **1.3**

Premium Waiver A policy provision whereby premiums otherwise payable are not required by the insurer under prescribed circumstances, e.g. when the life insured has become disabled. **3.3.2(f)**

Presumption of Death Where no death certificate can be issued, it may be possible to have a presumption of death by the courts (after disappearance etc.). **5.6.2**(e)

Primary Beneficiary (or **First Beneficiary**) Where a policy has two or more policy beneficiaries, the one who is stated as having priority in receiving the policy proceeds is called the Primary Beneficiary. There could be more than one Primary Beneficiary. **4.4**(b)

Principal Brochure A document required with all investment-linked assurance schemes, containing the information necessary for prospective scheme participants to make an informed judgment of the investment proposed to them. **5.2.4**(e)(iv)

Proof of Age Documentary or other evidence to satisfy the insurer as to the life insured's age. This may be provided at any time, but it is normally required before any claim under the policy can be made. **5.6.1**(d)

Proof of Death Normally provided by a death certificate, this is an obvious requirement in substantiating a death claim. **5.6.2(c)**

Proof of Title Title may be defined as the legal entitlement to a benefit etc. Such title is important, for example, with a person claiming the cash value under a surrender claim. **5.6.3(a)**

Provident Fund Schemes A retirement provision, but unlike a pension the benefit is in the form of a lump-sum amount payable at retirement or other specified time. **2.1.4b**

Proximate Cause It is the principle which seeks to establish the dominant or effective reason for a loss occurring. The cause of death may sometimes be important in life insurance, for example, if the policy provides additional benefits for accidental death (or if death happens within the contestable period and suicide exclusion period). **1.2**(c)

Pure Endowment A rare form of life insurance where the benefit is only payable if death does **not** occur during the period (term) specified. **2.1.2**(b)

Pure Premium or **Pure Cost of Insurance Protection** See **Net Premium**. **1.3.1a**(b) **Note**

Reduced Paid-up Insurance A non-forfeiture option that allows the policyowner to use the net cash value as a single premium to purchase substitute insurance with a lower sum insured than the original one. **4.5**(b)(ii)

Regular Account Statement Policyholders will receive a report each year that lists some important information, such as current death benefits, premiums, opening and closing account values, etc. **2.2.1**(g)

Reinstatement The restoration of a lapsed policy into full force. Also known, with UK style policies, as Policy Revival. This is provided for under policy conditions, but is subject to certain limitations, e.g. a specified time period (perhaps five years for exercising the option), repayment of back premiums and interest, and perhaps other measures. **4.7**

Reinsurance Insurance that transfers all or part of the risk assumed by an insurer under one or more insurance contracts to another insurer. **5.1.1**(g)(iii)

Release or Release Form Documentary confirmation from a beneficiary that the policy's death benefit stands reduced by the amount of any accelerated death benefit payment. Alternatively, a discharge given by a benefit recipient, e.g. with a policy surrender, death claim etc. **3.3(c)**, **5.6.3(c)**

Renewable Term Insurance A term insurance that offers the right of renewal for further period(s) without evidence of insurability. **2.1.1b**(a)

Renewal Premiums Premiums paid or payable for life insurance after payment of the initial premium. **1.3.2b**(c)(iii)

Replacement (Policy Replacement) Changing an existing life insurance policy for a replacement one. The term, has an undesirable implication whereby policyowners are persuaded to make the change which may be more beneficial to the interests of the insurance intermediary or the new insurer rather than the interests of the policyowner. The latter practice is known as "**Twisting**" (i.e., an inappropriate replacement of a life insurance policy). **5.2.5**

Reserve That part of the premium collected which is considered to be unearned will be used to build policy reserve for the purposes of paying policy benefits in the future. **1.3.2b**(b)

Reversionary An interest which exists now, but which cannot be fully exercised until some future time or event. **4.9**

Rider / Policy Rider Such an amendment to a policy that becomes part of the insurance contract and that either expands or limits the benefits payable under the contract. It provide further benefits, e.g. **Accidental Death Benefit (ADB)** rider. **3.1**

Settlement Options The choices available to the policyowner when the policy proceeds become available. These options include: lump sum single payment, proceeds left to earn interest with the insurer, proceeds paid in instalments over a fixed period etc. **4.11**

Single Employer (Plans) Group life insurance where all insured persons are employees of the same employer. **2.3**(d)

Single-Payment Annuity An annuity that is purchased by the payment of a single, lump sum premium. **2.1.4a**(a)

Single Premium Endowments An endowment insurance plan involving a single premium payable at policy inception, regardless of the term specified. **2.1.2**(a)

Special Class Risks See **Sub-Standard Risks**. **5.3.1**(b)(ii)

Specific Exclusions Risks or causes of claims specifically removed from the cover of the policy. These are relatively rare with life insurance, but may more commonly be found with rider benefit, e.g. suicide with accidental death benefits. **5.3.3**(c)(ii)

Standard Risks Risks presenting no abnormal features and insurable on normal terms. **5.3.1**(b)(i)

Straight Life Insurance (Policy) See **Premiums for Life**. **2.1.3**(a)(i)

Subrogation An insurance principle which allows an insurer who has provided an indemnity to take over for his own benefit rights the insured has against third parties. As indemnity does not apply to life insurance, so this corollary of indemnity does not apply to it either. **1.2**(f)

Sub-Standard Risks Proposed risks which are more likely to result in a loss than the average, so they are either rejected or insurable with special terms. Sometimes called **Special Class Risks**. **5.3.1**(b)(ii)

Suicide An excluded peril for the first year or for a period of time, but it is a permanent exclusion in respect of any accidental death benefit. **1.2.3**(a) **Note 1**

Suicide Clause This constitutes the provisions of a life policy in respect of death by suicide, which is normally excluded for the first year or for a period of time, but not excluded thereafter (unless reintroduced for a further period after policy reinstatement). **4.12**

Supplementary Requirements Consisting of a number of documents that an underwriter may need including life underwriter's (agent's) report, choice of premium payment method, proof of insurability and underwriting questionnaires, etc. **5.2.1**(c)

Surrender Claims Termination of the insurance at the request of the policyowner. Whilst he is entitled to do so, the insurer shall explain to him other options for reference. **5.6.3**

Surrender Value Payable in cash, a policy’s surrender value equals the cash value minus a surrender charge, a charge that is applicable when a policy is surrendered for its cash value or when a policy, under some plans, is adjusted to provide a lower level of death benefit. Also see **Cash Value**. **1.3.2b**(c)(i)

Technical Underwriting Assessment of the intrinsic and perceived hazards of given risks, as to their insurability and terms. **5.3.1**(b) **Note**

Temporary Insurance Agreement (TIA) See **Binding Premium Receipt**. **5.2.2**(b)

Temporary Life Annuity It is an annuity that provides periodic benefit payments until the end of a specified period but only as long as the annuitant is alive. **2.1.4a(c)**

Temporary Risk Situations Situations where premature death might cause undue financial burdens and therefore suitable for temporary (term) life insurance, e.g. whilst a loan is outstanding or there are educational needs for children. **1.1**

Term Insurance Life insurance where the benefit is payable only if the life insured dies during the period (term) specified. Also known as **Temporary Life Insurance**. **2.1.1**

Third Party Policy A policy where the insurance is on the life of a person other than the applicant. **3**

Title It is a legal term meaning the right to hold goods or property (e.g. policy proceeds). **5.6.3**(a)

Total Disability As defined under the Disability Income Benefit Rider, this means that the insured is unable to perform the essential acts of his own occupation, or any occupation for which he is reasonably fitted by education, training or experience. **3.1.2**(a)

Twisting See **Replacement**. **5.2.5**(a)

"Unbundled" Pricing Structure A feature of universal life insurance, whereby the insurer separately discloses the three pricing factors: mortality (or pure cost of protection), interest and expenses. **2.2.1**

Unconditional Premium Receipt See **Binding Premium Receipt**. **5.2.2**(b)

Underwriting The process of identifying and classifying the degree of risk represented by an application, and of determining its insurability and the contract terms to be adopted. **1.3.1a**(a), **5.1.1**(g), **5.3**

Uninsured Perils These are causes of loss neither specifically covered by a policy nor specifically excluded. An important consideration with general insurances and the principle of proximate cause, but unlikely to have any significant application to life insurance. **1.2.3**(a)(iii)

Universal Life (Insurance) Life insurance which is subject to a flexible premium, has an adjustable benefit and an 'unbundled' pricing structure, and accumulates a cash value. **2.2.1**

Utmost Good Faith The common law principle with insurance contracts, whereby each party must reveal to the other all material facts prior to contract conclusion, whether these are requested or not. Breach of this principle makes the contract voidable, subject to such contract terms as the **Incontestability Clause**. **1.2**(b)

Valuation A core function of the Actuarial Department, relating to the calculation of the value of the company's assets and liabilities. **5.1.1**(b)(ii)

Waiting Period A qualification to the Disability Waiver of Premium Rider, whereby premiums are not waived until the insured has been disabled for a specified number of months, during which is the waiting period. Some insurers refund premiums paid during the waiting period if the disability lasts longer, so that policy premiums begin to be waived. **3.1.1**(a)

Whole (of) Life Insurance Life insurance where the benefit is payable only on death, whenever that occurs. **2.1.3**

With Profits The equivalent term in U.K. insurance terminology of a participating insurance. **1.3.1b**(a) **Note 1**

Without Profits The equivalent term in U.K. insurance terminology of a non-participating insurance. **1.3.1b**(a) **Note 1**

Yearly Renewable Term (YRT) Insurance Also known as **Annually Renewable Term (ART) Insurance**. One year term insurance with guaranteed insurability renewal provisions. **2.1.1b**(a)

Glossary

Adjustable Benefits	可調整的身故賠償(利益)	**2.2.1(b)**
Absolute assignment	絕對轉讓	**4.9**(f)(i)
Accelerated death benefits	提前支付死亡保險利益	**3.3**
Accident benefits	意外保險利益	**3.2**
Accidental death and dismemberment (AD&D) rider	意外死亡及喪失肢體附加保障	**3.2**
Accidental death benefit (ADB)	意外死亡保險利益	**3.2.1**(a)
Accounts department	會計部	**5.1.1**(a)
Actively-at-work provision	在職工作條款	**2.3**(f)
Activities of daily living (ADLs)	日常起居活動能力	**3.3.2**(c)
Actuarial department	精算部	**5.1.1**(b)
Adequate (premium)	充足的(保費)	**1.3.1**(a)
After sales service	售後服務	**5.5**
Aged Next (last) birthday	下一個(前一個)生日年齡	**5.2.1**(b)(iii)
Agency training and control	代理人的培訓與管理	**5.1.1**(c)
Age-not admitted	年齡未獲承認	**5.6.1**(d)
Age-related limitation	與年齡有關的限制	**2.1.3**(a)(iii)
Annually renewable term (ART) insurance, Yearly renewable term (YRT) insurance	每年可續保定期壽險	**2.1.1b**(a)
Annuitant	年金標的人	**2.1.4**(a)
Annuity	年金	**2.1.4**(a)
Annuity certain	確定年金	**2.1.4a**(c)
Anti-selection	逆選擇	**1.3.2a**(c)(ii)
Application	投保	**5.2**
Appointed actuary	獲委任精算師	**5.2.6a**
Approved nursing home	認可的護理院	**3.3.2**(b)
Assignee	承讓人	**4.9**
Assignment	轉讓	**4.9**
Assignor	轉讓人	**4.9**
Attained age	足齡／到達年齡	**2.1.1b**(b)
Attending physician's statement (APS)	主診醫生報告	**5.3.2b**(b)
Automatic dividend option	自動紅利選擇	**4.10 註**
Automatic premium loan (APL)	自動保費貸款（APL）	**4.5**(a) **註**
Basic functions	基本功能	**2**(a)
Basic plan	基本計劃	**3.4**(a)
Basic questions	基本問題	**2**(c)
Basic variables	基本變數	**2**(b)
Beneficiary	受益人	**4.4**

Beneficiary designation	受益人的指定	**4.4**
Benefit policies	利益保單	**1.2.3**(b)(i)
Binding premium receipt	立約保費收據	**5.2.2**(b)
Bonuses	英式紅利／紅利	**1.3.1b**(a)**註 1**
Business needs	商業需求	**1.1.1**(b)
Cash value	現金價值	**1.3.2b**(c)(i)
Cause of death	死因	**5.6.2**(d)
Certificate	保險憑證	**5.4.1**(b)
Claims	理賠	**5.1.1**(d)
Class designation	概括式指定	**4.4**(a)
Collateral assignment	抵押轉讓	**4.9**(f)(ii)
Collateral security	質押擔保	**1.3.2b**(c)(ii), **4.9**(f)(ii)
Conditional premium receipt	附條件保費收據	**5.2.2**(a)
Conservation	保留	**5.2.3a**(a)
Contestable period	可異議期	**4.2**，**4.7**(c)(v)
Contingent beneficiary	次順位受益人	**4.4**(b)
Continuous premium whole life policy	連續繳費終身壽險保單	**2.1.3**(a)(i)
Contractholder	合約持有人	**2.1.4(a)**
Contribution	分攤	**1.2**(e)
Contributory (plans)	供款計劃	**2.3**(c)
Convert (conversion)	轉換	**2**(b)(i)，**2.1.1b**(b)
Convertible term insurance	可轉換定期壽險	**2.1.1b**(b)
Cooling-off period	冷靜期	**5.2.4**
Cooling-off rights	冷靜期權利	**5.2.4**
Cost of living adjustment (COLA)benefit	生活指數調整利益	**3.6.1**
Cover note	暫保單	**5.2.2 註**
Credit life insurance	信用壽險	**2.1.1a**(b)(i)
Critical illness benefit	危疾保險利益	**3.3.1**
Customer loyalty	客戶忠誠度	**5.2.3a**(a)
Customer prospecting	客戶拓展	**5.2.3a**(b)
Customer Declaration for Policy Replacement (CDPR)	人壽保險客戶轉保聲明書	**5.2.5**(c)
Customer service	客戶服務	**5.1.1(e), 5.2.3**
Date of death	死亡日期	**5.6.2**(b)
Days of grace	寬限日期	**4.3**
Death benefit	身故賠償(利益)	**2.2.1**(f)
Death claims	死亡索償	**5.6.2**
Debt (on policy)	保單負債	**5.3.3**(c)(i)
Declinature	拒保	**5.3.3**(a)
Declined risks	拒保風險	**5.3.1**(b)(iii)
Decreasing term insurance	遞減定期壽險	**2.1.1a**(b)

Defer decision	延遲決定	**5.3.3**(c)(iv)
Deferred annuity	延期年金	**2.1.4a**(b)
Disability income benefit	殘疾收入利益	**3.1.2**
Dismemberment	喪失肢體	**3.2.1**(b)
Dividend options	紅利選擇	**4.1**
Dividends	紅利	**4.1**
Divisible surplus	可分配盈餘	**1.3.1b(a)**
Double indemnity benefit	雙倍賠償利益	**3.2.1**(a) **註 1**
Double insurance	重複保險	**1.2.3**(c)(i)
Duty of disclosure	披露責任／申報實情責任	**1.2.2**
Employee benefit plans	僱員福利計劃	**2.3**
Endorsements	批註	**2**(b)(iv)
Endowment insurance	儲蓄壽險	**2.1.2**
Enrolment card	成員登記卡／證書	**5.4.1**(b)
Entire contract provisions	完整合約條款	**4.1**
Equitable (premiums)	公平的(保費)	**1.3.1**(b)
Equities	股票	**2.2.2**(b)
Estate Planning	遺產規劃	**1.1**(a)
Ex gratia payment	通融賠付	**4.12 註 2**
Examining physician	體檢醫生	**5.3.2**(b)
Excepted/excluded perils	除外危險	**1.2.3**(a)(ii)
Exclusions	除外責任	**1.2.3**(a)(ii)
Expenses	開支	**1.3.1a**(c)
Extended term insurance	展期保險	**4.5**(b)(iii)
Face amount	保額	**1.3.2b**(c)(iv)
Family income insurance	家庭收入壽險	**2.1.1a**(b)(ii)
Financial underwriting	財務性核保	**5.3.1**(b) 註
Fixed interest investments	固定利息投資	**2.2.2**(b)
Flexible premium	靈活保費	**2.2.1**(a)
Fraud	欺詐行為	**4.2**(b)
Fully earned	已完全賺取	**1.3.2b**(b)
Grace period	寬限期	**4.3**
Graded-premium policy	等級保費保單	**2.1.3**(c)
Gross premium	毛保費	**1.3.1a**(c) 註
Group insurance	團體保險	**2.3**
Guaranteed annuity	保證年金	**2.1.4a**(c)
Guaranteed purchase option	保證可保選擇	**3.5.1**
Hospital charges	住院費用	**3.4**(a)(i)
Immediate annuity	即期年金	**2.1.4a**(a)
Important Facts Statement	重要資料聲明書	**5.2.8**
Inception date	起保日期	**5.2.2**
Incontestability Provision	不可異議條款	**4.2**

Increasing term insurance	遞增定期壽險	**2.1.1a**(c)
Indemnity	賠償	**1.2**(d)
Indemnity corollaries	賠償的引伸	**1.2.3**(c)
Inflation	通貨膨脹	**3.6**
Insurability	可保	**2.2.1**(b)
Insurability benefits	可保權利益	**3.5**
Insurable interest	可保利益	**1.2.1**
Insured perils	受保危險	**1.2.3**(a)(i)
Interest	利息	**1.3.1a**(b)
Investment	投資	**1.3.1a**(b)
Irrevocable beneficiary	不可撤換受益人	**4.9**(e)(i)
Joint-life basis	聯合壽險方式	**2.1.1a(b)(iii)**
Lapse	失效	**1.3.2b(c)(iii)**
Law of averages/ law of large numbers	平均法則／大數法則	**1.3.1a**(a)
Level premium system	均衡保費制度	**1.3.2b**
Level term insurance	定額定期壽險	**2.1.1a**(a)
Life annuity	終身年金	**2.1.4a(c)**
Life income annuity with period certain	確定期間終身年金	**2.1.4a**(c)
Life insurance	人壽保險	**1.1**
Life Insured	受保生命	**3 註**
Life Office Management Association Inc. (LOMA)	美國壽險管理學會	**1.1**
Linked Long Term Insurance	連掛長期保險	**2.2.2**
Living benefit riders	生前支付保險利益附約	**3.3**
Loading	附加保費	**1.3.1a**(c)
Long Term Business	長期業務	**1.3.1b**
Long term care (LTC)	長期護理	**3.3.2**
Lump sum	一整筆款項	**2.1.1a**(b)(ii), **4.11**(a)
Market value adjustment (MVA)	市值調整	**5.2.4(e)(ii)**
Marketing	市場行銷	**5.1.1**(f)
Master policy	總保單	**5.4.1**(b)
Material facts	重要事實	**1.2.2**
Mature	期滿	**2.1.2**
Maturity claims	期滿索償	**5.6.1**
Medical application	要體檢的投保	**1.2.2**(c)
Medical benefits	醫療保險利益	**3.4**
Medical reports	健康檢查之報告	**5.3.2**
Medical tests	身體檢查	**1.2.2**(d)
Misstatement of age/sex	誤報年齡／性別	**4.8**
Money laundering	洗黑錢	**5.5.1 註**
Moral hazard	道德危險	**5.3.1**(a)(ii)

Mortality	死亡率	**1.3.1a**(a)
Mortality tables	死亡表／生命表	**1.3.1a**(a)
Mortgage indemnity insurance	按揭賠償保險	**2.1.1a**(b) **註**
Mortgage redemption insurance	抵押贖回壽險	**2.1.1a**(b)(iii)
Multiple-employer groups	多個僱主的團體	**2.3**(d)
Murder	謀殺	**5.6.2**(d)(iv)
Natural premium system	自然保費制度	**1.3.2a**
Natural risk	自然風險	**1.3.2**a(a)
Net cash value	淨現金價值	**1.3.2b**(c)(iv)
Net policy proceeds	保單的淨保單收益	**4.9**(c)
Net premium	淨保費	**1.3.1a**(b) **註**
Non-contributory plans	非供款計劃	**2.3**(c)
Nonforfeiture	不能作廢	**4.5**
Nonforfeiture Benefits (provisions)	不能作廢條款	**4.5**
Nonforfeiture options	不能作廢（選擇）	**4.5**(b)
Non-medical application	免體檢的投保	**1.2.2**(b)
Non-participating policy	不分紅保單	**1.3.1b**(a)
Option dates	備擇／行權日期	**3.5.1**(a)
Optional medical plan	自選醫療計劃	**3.4**(b)
Paid-up insurance	清繳保險	**1.3.2b**(c)(iv)
Par/non-par	分紅／不分紅	**1.3.1b**(a)
Participating/non-participating	分紅／不分紅保單	**1.3.1b**(a)
Pension	退休金	**2.1.4**(b)
Permanent plan	永久計劃	**2.1.1b**(b)(iii)
Personal Data Protection Act	《個人資料保護法》	**1.2.2**(d)
Personal needs	個人需求	**1.1.1**(a)
Physical hazard	實質危險	**5.3.1**(a)(i)
Policy changes	更改保單	**5.5.1**
Policy delivery	交付保單	**5.4.1**
Policy issuance	簽發保單	**5.4**
Policy loan	保單抵押貸款	**1.3.2b**(c)(ii)，**4.6**
Policy replacement	轉保	**5.2.5**
Policy revival	保單復效	**4.7**
Policyowner-insured	被保保單持有人	**3 註**
POS (Policyowner Service)	保單持有人服務部	**5.1.1**(e)，**5.5**
Pre-existing conditions	保單生效前已存在的疾病	**3.4**(c)(i)
Preferred risks	優良風險	**5.3.1**(b)(iv)
Premium	保費	**1.3**
Premium Rates (life insurance)	費率（人壽保險）	**1.3**
Premium waiver	保費豁免	**3.3.2**(f)
Presumption of death	推定死亡	**5.6.2**(e)

Primary beneficiary (or first beneficiary)	第一順位受益人／第一受益人	**4.4**(b)
Private nursing	私人護理	**3.4**(a)(ii)
Proof of age	年齡證明	**5.6.1**(d)
Proof of death	死亡證明	**5.6.2**(c)
Proof of title	所有權證明	**5.6.3**(a)
Proposal	建議書	**5.2**
Provident fund scheme	公積金計劃	**2.1.4b**
Proximate cause	近因	**1.2**(c)
Pure cost of protection	保險的純成本	**2.2.1**(d)(i)
Pure endowment	純生存保險	**2.1.2**(b)
Pure premium	純保費	**1.3.1a**(b)註
Rate of mortality	死亡比率	**1.3.1a**(a)
Reduced paid-up insurance	減額清繳保險	**4.5**(b)(ii)
Reinstatement	復效	**4.7**
Reinsurance	再保險	**5.1.1**(g)(iii)
Release/Release form	棄權聲明／解除責任憑證	**3.3**(c)，**5.6.3**(c)
Renewable term insurance	可續保定期壽險	**2.1.1b**(a)
Renewal premiums	續保保費	**1.3.2b**(c)(iii)
Reserve	儲備	**1.3.2b**(b)
Retirement	退休	**1.1**(d)
Reversionary	復歸的	**4.9**
Rider	附加保障	**3.1**
Risk Assessment	風險評估	**5.1.1**(g)(i)
Savings	儲蓄	**1.1**(b)
Selection against the insurer	不利於保險人的選擇	**1.3.2a**(c)(ii)
Settlement Options	賠付選擇	**4.11**
Single employer (plans)	單一僱主（計劃）	**2.3**(d)
Single payment annuity	整付(躉繳)年金	**2.1.4a**(a)
Single premium endowments	整付(躉繳)保費儲蓄壽險	**2.1.2**(a)
Special class risks	特殊風險	**5.3.1**(b)(ii)
Standard risks	標準風險	**5.3.1**(b)(i)
Standard terms	標準條款	**5.2.2**(a)
Straight life insurance policy	純粹壽險保單	**2.1.3**(a)(i)
Subrogation	代位權	**1.2**(f)
Sub-standard risks	次標準風險	**5.3.1**(b)(ii)
Suicide	自殺	**1.2.3**(a) **註 1**
Suicide exclusion	自殺除外責任	**4.12**
Suicide exclusion period	自殺免責期	**1.2.3**(a)**註 1**
Supplementary requirements	補充要求	**5.2.1**(c)
Surrender claims	退保索償	**5.6.3**
Surrender value	退保價值	**1.3.2b**(c)(i)

Technical underwriting	技術性核保	**5.3.1**(b) 註
Temporary insurance agreement (TIA)	臨時保險協議	**5.2.2**(b)
Temporary life annuity	臨時終身年金	**2.1.4a**(c)
Temporary Life Insurance	短期人壽保險	**2.1.1**
Term insurance	定期壽險	**2.1.1**
Time franchise	起賠期限／起賠期間	**3.1.1**(a)
Total disability	完全殘疾	**3.1.2**(a)
Twisting	誘導轉保	**5.2.5**(a)
“Unbundled” Pricing Structure	“分別列示各定價因素”的定價結構	**2.2.1**
Unconditional premium receipt	不附條件保費收據	**5.2.2**(b)
Underwriting	核保	**1.3.1a**(a)，**5.1.1(g)**，**5.3**
Uninsured perils	不保危險	**1.2.3**(a)(iii)
Universal life insurance	萬用壽險	**2.2.1**
Utmost good faith	最高誠信	**1.2**(b)
Valuation	估值	**5.1.1**(b)(ii)
Waiting period	等候期	**3.1.1**(a)
Waiver of premium rider (WP benefit rider)	豁免保費附加保障	**3.1.1**
Whole (of) life insurance	終身壽險	**2.1.3**
With profits policies	有利潤保單	**1.3.1b**(a) **註 1**
Without profits policies	無利潤保單	**1.3.1b(a)註 1**