

Frequently Asked Questions: Participating Fund Annual Bonus Update (ABU)

Participating fund

1. What is a “participating life insurance policy”?

HSBC Life Singapore is currently managing three participating funds:

Current Fund Name	Previous Fund Name
HSBC Par Fund I (SGD)	HSBC Life Singapore Participating SGD Fund
HSBC Par Fund II (SGD)	AXA Participating Fund SGD
HSBC Par Fund (USD)	HSBC Life Singapore Participating USD Fund

Participating life insurance policies (“Par policies”) allow you to enjoy additional benefits from the performance of the respective participating fund (“Par Fund”) in the form of bonuses. Par policies are widely used to meet the life protection and savings needs of many people in Singapore.

2. What is a “participating fund”?

A participating fund, or Par Fund, is an insurance fund comprising the premiums from Par policies. The premiums are invested on behalf of policyholders in a mix of assets such as equities and fixed income securities. A wide mix of investments is carefully chosen to provide a balance between long-term returns and prudent risk management.

Bonus rates

3. What are bonuses and how are they determined?

Bonuses are benefits added to your Par policy based on the annual bonus rates declared by HSBC Life (Singapore) Pte. Ltd. (“HSBC Life”). They represent the non-guaranteed portion of the benefits offered by Par policies and are determined based on the Par Fund’s investment and non-investment performance. Every year, we notify our policyholders of the bonus amount declared for their policies.

Different products have different bonus structures. There are three types of bonuses:

- (i) Reversionary bonus is an annual bonus added to the policy at each policy anniversary (where eligible). Products with cash bonus, dividend or non-guaranteed retirement income will not have a reversionary bonus. Examples of products without a reversionary bonus include HSBC Life Secure Saver, HSBC Life Retire Happy Plus series and HSBC Life Sapphire Prestige Income series.
- (ii) Cash bonus, dividend or non-guaranteed retirement income are bonuses paid in cash periodically. Examples of products with this bonus include HSBC Life Secure Saver, HSBC Life Retire Happy Plus series and HSBC Life Sapphire Prestige Income series.
- (iii) Terminal bonus is a one-off, non-guaranteed bonus that may be payable upon surrender, claim or maturity. The majority of participating products will have this bonus.

The actual bonuses declared may differ from those projected in the Policy Illustration document you received when you bought your policy, or in subsequent illustrations you receive during the policy term. This is because

the actual investment returns and actual non-investment performance may differ from our original expectations.

The profit that can be transferred to our shareholders is limited to a maximum of one-ninth of the value of bonuses declared to policyholders. This means that shareholders can only get up to \$1 for every \$9 of bonuses declared to policyholders. This aligns shareholders' profit objectives with policyholders' interests and helps prevent excessive distribution of profits to shareholders.

4. Are bonuses guaranteed?

Reversionary bonuses are declared and added to the policy over time. Once reversionary bonuses are declared and added, they are guaranteed. However, if you surrender your policy and request an early payout, you may not receive the full amount of bonuses declared to you due to surrender penalties. The reversionary bonus rates of future years are not guaranteed until they are declared.

Cash bonus, dividend or non-guaranteed retirement income are types of bonuses that are paid out in cash periodically. Once declared and paid, they are guaranteed and will not be clawed back in future years. The respective bonus rates of future years are not guaranteed until they are declared.

Terminal bonus rates are not guaranteed. The prevailing terminal maturity, death or surrender bonus rates will be applied and paid out at the time of policy maturity, claim or surrender.

5. What factors are considered when determining the non-guaranteed benefits offered by Par policies?

The amount of bonuses declared annually depends on the amount of surplus in the Par Fund. This in turn depends on factors including external economic conditions, actual and expected investment performance, death and surrender claims experience, and expense levels of the Par Fund.

Bonus rates may be increased or reduced to reflect past and expected future investment returns and non-investment experience of the Par Fund. Bonus rates may also be smoothed from year to year to avoid excessive volatility in your policy's benefits.

In addition, we ensure the declared bonuses can be supported by the Par Fund to maintain the fund's financial soundness. We strive to treat policyholders from all groups of Par policies fairly and equitably when determining bonuses. To ensure policyholders' interests are adequately considered, the Board of Directors has established a dedicated committee that provides independent advice on matters related to participating policies and appropriate bonus rate changes.

6. Why is the projected maturity / surrender benefit in the Annual Bonus Statement lower or higher than the projected value at the point of sale?

At the point of sale, the projected value was based on the economic outlook at that time. The projected value in the Annual Bonus Statement will reflect the actual performance (and future market outlook) of the Par Fund, which may differ from the economic conditions when you bought the policy.

For Par policies, your premiums are invested according to the Par Fund's investment strategy. The assets of the Par Fund are used to meet payments for claims, maturity, early surrender and expenses related to the Par

Fund's policies. In particular, for policies sold before 2003, actual investment returns were below the projected investment rate at the point of sale due to the difficult investment climate between the late 1990s and the late 2000s. Significant events that led to the underperformance of the Par Fund included the Asian Financial Crisis of 1997, the 'dot-com' crash of 2000-2002, and the Global Financial Crisis of 2008. More recent events that have impacted investment performance include low interest-rate policies in numerous developed economies during the 2010s, the COVID-19 pandemic, and the Ukraine-Russian war. As a result, bonus rates were revised accordingly to reflect the actual experience of the Par Fund and prevailing market sentiments.

Future outlook and considerations

7. What is HSBC Life's approach to managing the Par Fund?

We adopt a long-term approach to managing the investment portfolio of the Par Fund. We strive to provide stable medium to long-term returns that can be transferred to policyholders through a combination of guaranteed and non-guaranteed bonuses. We aim to achieve stability of returns by smoothing bonuses over time.

For example, if the performance of the Par Fund is above expectations in one year, we may hold back a portion of the earnings to help maintain bonuses in years when the Par Fund does not perform so well. If your Par policy has sufficient surpluses and the outlook remains positive, we may increase your bonuses.

On the other hand, bonuses may still be maintained in years when the performance of your Par policy is below expectations, as there may be sufficient surpluses that were held back in previous years to make up for the shortfall. However, if the performance of your Par policy continues to be unfavourable and is expected to persist, we may reduce your bonuses to ensure that the projected benefits for your Par policy remain supportable.

8. What will bonus rates be in the future?

Future bonus rates will depend to a large extent on future returns on the Par Fund's investments and non-investment experience. We will declare bonuses that reflect the performance of the underlying fund, bearing in mind our aim to smooth out returns to policyholders over time to help maintain stability in policyholders' returns.

9. Should I leave my plan early?

For all plans except term plans with no cash value: as buying a life insurance policy is a long-term commitment, an early termination of the policy usually involves high costs and the surrender value (if any) that is payable to you may be zero or less than the total premiums paid. By continuing your Par policy, you are enjoying continued insurance coverage that provides financial protection against life's uncertainties.

Nevertheless, we understand that unforeseen financial needs may arise. An alternative is to opt for an automatic premium loan, where your policy's cash value will be used to pay your premium when the premium is unpaid at the end of the grace period. For other alternatives, please contact your Financial Advisers Representative or call us at +65 6880 4888 for a discussion.

10. Who can assist me with my Par policy?

Feel free to contact your Financial Advisers Representative or call our Customer Care Hotline at +65 6880

4888, between 9:00 and 17:00 from Monday to Friday (excluding public holidays).

In addition, you can find more information in LIA's guide "Your Guide to Participating Policies" at <http://www.lia.org.sg>.

Other information

11. I have other HSBC Life Par policies. Why have I received different versions of the Annual Bonus Letter?

You will receive an Annual Bonus Letter for each of your Par policies with us, tailored to the respective policy. In some cases, you may notice some differences in the letter format due to different originating systems for the letter.

12. I have multiple HSBC Life Par policies from multiple product series. Should I expect them to have the same bonus adjustment?

Different products could have different bonus adjustments from year to year due to differences in product design, experience and other factors as discussed in questions 5 and 8.

13. Will non-participating and investment-linked policies be affected by this bonus declaration?

No. Non-participating and investment-linked policies are not affected by this bonus declaration.

14. How do HSBC Life's participating bonuses compare to the rest of the industry?

Bonuses declared by other insurance companies may not be comparable with that of HSBC Life, as different insurers may adopt different approaches to managing participating business, investment performance, death and surrender claims experience, and expense levels may also vary from company to company.

15. When will I receive the Annual Bonus Letter in future years?

As part of the integration of our insurance businesses, all Annual Bonus Letters for all Par policies will be sent in June annually.

16. If I received an electronic copy of the Annual Bonus Statement, can I request this statement to be sent to me in hard copy?

Yes, please contact your Financial Advisers Representative or call our Customer Care Hotline at +65 6880 4888, between 9:00 and 17:00 from Monday to Friday (excluding public holidays) to request a hard copy of your Annual Bonus Statement.