

## **What is policy dividend?**

Hang Seng Insurance Company Limited (“HSIC”) issues dividend-paying policies, which are life insurance contracts providing both guaranteed and non-guaranteed benefits. The guaranteed benefits may include the following: 1) guaranteed death benefits, 2) guaranteed cash values, 3) guaranteed annuity payments and 4) guaranteed maturity values. The non-guaranteed benefits include policy dividends, which may be paid or varied at the discretion of HSIC.

Policy dividends allow policyholders to participate in the financial performance of the life insurance operations. Whether dividends are paid and the size of the dividends which an insurance company distributes or pays to its customers depends on how well it has performed with regard to investment returns on the assets supporting those policies, as well as its performance managing other financial matters such as claims, persistency and expenses. If the performance over the long term is better than expected, then the dividend amount paid would increase. If performance is worse than expected, then dividend amount paid would decrease.

HSIC operates a relatively conservative investment policy in order to secure the guaranteed benefit and to protect dividend-paying policies from frequent adjustments of non-guaranteed benefits. The assets supporting the dividend-paying policies consist predominantly of fixed-interest securities issued by government and corporate entities with good credit status. Equity-type investments managed on a prudent basis are also utilised in order to enhance investment performance in the long run. Exposure to equity-type assets is normally within the range of 0% to 20%.

HSIC adjusts the level of dividends payable to policyholders depending on both actual performance and also management's expectation of long-term future performance in relation to the assets referred to in the previous paragraph. HSIC operates a smoothing philosophy in relation to policyholder dividends payable, so the level of dividends will only be changed if the actual performance is significantly different from expected over a certain period of time or if management's expectation of long-term future performance changes. Policyholders can choose to accept their dividends either in cash or to leave them on deposit with HSIC and receive interest at a rate decided by HSIC.

The main advantage of dividend-paying policies over other forms of insurance contract is that in addition to the guaranteed benefits receivable, policyholders will also benefit from additional dividend payments if the insurance company's performance is better than that required to support the underlying guarantees. The better the performance, the greater the dividend payments, and, conversely, the worse the performance, the lower the dividend payments.

Certain dividend-paying policies sold on a tranche basis over a limited period are managed differently from the other dividend-paying policies mentioned above, which is in accordance with the specific dividend structure offered under those policies. The level of dividends payable will largely depend on the performance of the underlying investment portfolio as the contributions from other financial matters would usually be very small under this type of dividend-paying policy. Also, the majority of the policy dividends are payable as a lump sum at the policy maturity date instead of payable annually at each policy anniversary date.