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Frequently Asked Questions on Bonus and Dividend Rates

Q1. When are bonuses and dividends reviewed and declared?

Bonuses and dividends are normally reviewed and declared annually. Every year, AIA will notify its participating policyholders of the amount of bonus or dividend that may be credited to their policies.

Q2. How are bonuses and dividends determined?

When you buy a participating policy, your premiums are paid into the AIA Participating Fund ("Par Fund") where they are combined with the premiums paid by all other participating policyholders. We make benefit payments, and deduct expenses, from the Par Fund and the balance is invested in assets including fixed income securities and equities.

Each year, we determine the value of the assets in the Par Fund and subtract the value of the guaranteed policy benefits (sums assured and previously declared bonuses, plus any accumulated dividends and coupons left in the Par Fund) and other liabilities. The amount left over is available to declare future bonuses and dividends.

When we declare bonuses and dividends, we aim to give all policyholders a return on the premiums paid that reflects the Par Fund's experience over the time they have kept their policy with us.

Currently, as per regulatory requirements, the maximum amount that AIA shareholders can receive from the Par Fund is based on a fixed ratio of the bonuses and dividends given to the policyholders. This ratio is currently 9:1 i.e. for every S\$9 given to policyholders, S\$1 can be given to shareholders. Hence, if policyholders receive lower bonuses and dividends, AIA shareholders will also receive less.

Q3. What items and expenses are charged to the Par Fund?

The value of the Par Fund is affected by a variety of expenses relating to participating policies. For example, if a participating policyholder should pass away, then any death benefits payable would be charged to the Par Fund. There are also investment fees related to the management of the Par Fund's assets, marketing and other distribution-related costs, and general management expenses including a share of AIA's fixed overheads.

Q4. What does the Par Fund invest in?

While seeking to maximise investment returns over the long run, we also strive to ensure the security and solvency of the Par Fund. The Par Fund achieves diversification by investing in a mix of assets including bonds, listed equities, private equity and real estate. The majority of the Par Fund's assets are invested in fixed income securities, which are considered to be low-risk. About 23% of the entire portfolio is invested in so-called risk assets such as listed equities, private equity and real estate.

Q5. What risks are involved in the Par Fund?

The key factors affecting the performance of the Par Fund are investment returns, mortality and morbidity experience, lapse and surrender experience, business risks (including but not limited to product design, selling and marketing practices, and demographic changes) and expense experience of the Par Fund as a whole. AIA will determine the level of bonuses taking into account the current performance as well as future outlook for the Par Fund.

Q6. How are risks shared?

Your premiums are combined with premiums from other participating policies in the Par Fund. The combined assets of the Par Fund are used to pay policy benefits, as well as to meet expenses and charges incurred in running the Par Fund. All the key risks affecting the value of the Par Fund including investment returns, mortality, morbidity, lapses and surrenders, expenses and business risks are shared by all the policies in the Par Fund. Investment risks are shared among all the policies within the same group or class of products.

Q7. Why does my bonus or dividend allocation vary from year to year?

Investment returns fluctuate in line with market dynamics. Other risks on the Par Fund, described above, can affect the rate of return earned. AIA tries to provide stable returns over the life of your participating policy, and so we adopt a concept known as 'smoothing'. For example, if the Par Fund performance is particularly good in one year, we may hold back a portion of the earnings so that we can maintain bonuses in years when the Par Fund doesn't perform so well.

Q8. I have more than one participating policy. Why aren't the bonus/dividend allocation and projected rates the same for each policy?

Bonus and dividend allocations, and projected rates of return, can differ between types of participating policies. It depends on the type of plan chosen, and when you bought it. The asset allocation (the mix of underlying investments) and corresponding investment returns may vary according to your type of plan and the Par Fund group that your plan belongs to. You can find out which group your participating plan belongs to by referring to "Your Participating Fund Update for 2014.

Q9. Why don't I get a bonus on other AIA policies?

The types of policies that are eligible for bonus or dividend declarations are mainly whole life and endowment participating policies. All "non-participating" policies and supplementary contracts (also known as riders), including term insurance plans, health insurance and critical illness riders do not participate in the profits of the Par Fund. As such, they are not eligible for bonuses or dividends.

Investment-linked plans are also non-participating policies that are not entitled to bonuses or dividends from the Par Fund. These plans have benefits which depend directly on the investment performance of the underlying investment-linked fund(s) chosen.

Q10. Will bonuses/dividends be revised?

Future bonuses and dividends (including terminal bonuses and terminal dividends) are not guaranteed and depend on the experience of the Par Fund and, in particular, the past and assumed future investment returns. Because investment returns can be volatile, we may vary bonuses and dividends significantly from time to time. As such, the actual bonuses or dividends credited in a particular year could differ from previous projections or illustrations. In times of substantial decline in investment returns, we may even reduce bonuses and dividends to nil. Conversely, in times of substantial increases in investment returns, we may even increase bonuses and dividends to higher than those originally projected at the time of purchase of your policy.

However, any change to bonus and dividend rates will only be made after a careful review of the Par Fund's experience, the prevailing investment returns and the outlook.

Q11. How can I find out more about participating policies and bonuses?

If you would like to know how a participating fund operates in general, a copy of "Your Guide to Participating Policies" is available on AIA's website at AIA.COM.SG or you may request a copy from your AIA Financial Services Consultant.