

Content

Title :	Directions Concerning Products for Insurance of the Person <b>Ch</b>
Date :	2006.09.01
Legislative :	1.Full five points adopted and issued 30 December 2000 per Letter No. (89)-Taiwan-Finance-Insurance-0890751453 of the Ministry of Finance 2.Full 12 points amended and issued 29 December 2004 per Order No. Financial-Supervisory-Insurance-II-09302524753 of the Financial Supervisory Commission, Executive Yuan; for implementation from 1 January 2005 3.Abolished on September 01, 2006
Content :	<p><b>Article 1</b></p> <p>1.Fundamental matters:</p> <p>1.1 When submitting an insurance product for review, a company shall indicate in its correspondence whether it is filing under file-and-use, use-and file, or prior approval procedures, shall note the number of times the product has been submitted for review (inclusive of the present submission), and shall include a note to the following effect: "Where the content of this insurance product violates any act or regulation or otherwise contains an error, thereby harming the rights or interests of an insurance customer, this company agrees to bear full responsibility under the law."</p> <p>1.2 Where the name of a product submitted for review has been changed, the original name of the product and the reasons for the change shall be clearly indicated in submitted correspondence.</p> <p>1.3 Policy provisions shall be based on model provisions and the provisions of current applicable acts and regulations, and shall not depart therefrom unless the departure is in favor of the insured.</p> <p>1.4 Where the provisions of a product submitted for review differ in any respect from the model provisions or the provisions last submitted for review, the difference may not be concealed, but rather, shall be truthfully underlined and a comparison chart created; the same applies where the pricing actuarial memorandum differs in any respect from that last submitted for review.</p> <p>1.5 The pricing actuarial memorandum shall be consistent with actuarial principles and the provisions of current applicable acts and regulations.</p> <p>1.6 The signing actuary shall, based on professional actuarial knowledge, faithfully provide an assessment opinion for a relevant product (including a report on the actuary's analysis of product profit as well as the actuary's analysis of either asset share or break-even sales volume) for reference by company management in policymaking.</p> <p>1.7 Prior to the sale of a product for insurance of the person, computer operations and other pertinent measures shall be prepared and the content checked to ensure that all information is without error and is consistent with the information submitted to the competent authority.</p> <p><b>Article 2</b></p> <p>2.Traditional personal life insurance:</p> <p>2.1 Where benefits are limited in time of war, this fact shall be indicated in the proposal.</p> <p>2.2 Life insurance for which longevity proceeds are paid at 95 years and higher shall be deemed whole life insurance; the name of the insurance line, the expense loading factor, and other relevant matters shall all be designed in the same manner as whole life insurance. Life insurance for which longevity proceeds are paid at under 95 years shall be deemed endowment insurance; the name of the insurance line, the expense loading factor, and other relevant matters shall all be designed in the same manner as endowment insurance.</p> <p>2.3 The interest rate on automatic premium loans shall be specified in the</p>

policy provisions.

2.4 It is inappropriate to circumscribe the amount of reduced paid-up insurance with the wording "may not be less than the minimum coverage for this insurance".

2.5 It should be noted that where a life insurance contract is changed to reduced paid-up insurance, the scope of coverage shall be the same as that provided for under the benefit payment conditions set forth in the original contract; otherwise, the change is in the nature of a policy conversion. This distinction should be noted. Where life insurance is changed to extended term insurance, the benefit payment conditions are usually different from those in the original contract, and should therefore be clearly set forth.

2.6 Where the pricing actuarial memorandum for either reduced paid-up insurance or extended term insurance states that operating expenses are deducted, such shall be stated in the policy provisions.

2.7 An individual company may specify the general terms and conditions for policy conversion in accordance with its particular administrative procedures.

2.8 Where the policy provisions list an option to increase the insured amount, additional administrative fees may not be collected for that purpose.

2.9 Where the insured under a life insurance rider is not the same person as the insured under the master contract, rider provisions may provide for termination of rider only in the event the insured under the rider dies or the proposer applies for termination of the rider. In any other circumstances, the rider shall remain valid.

2.10 Where a life insurance contract includes other insurance benefits such as double indemnity for death due to injury or death benefits for specified illness, upon death of the insured, the insurance company shall, in addition to paying policy proceeds in accordance with policy provisions, refund to the proposer the surrender value or unearned premiums for other benefits not paid, provided that this provision does not apply where mortality decrement has already been factored into the cost of benefits, in which case a disclosure shall be made in either the proposal or the policy provisions.

2.11 The maximum benefit (including any additions) for those at the age of 14 or older may not exceed NT\$60 million, while the maximum benefit (including any additions) for those under the age of 14 may not, as provided in Article 107 of the Insurance Act, exceed the maximum insured amount for funeral expenses as prescribed by the competent authority.

2.12 Where the assumed interest rate is greater than the dividend rate, the company shall take note of the rate of return on investment.

2.13 The policy period for pure endowment insurance or endowment insurance shall be no less than 5 years.

2.14 For life insurance that includes pure endowment proceeds (not the same as maturity proceeds), the pure endowment proceeds shall be paid no less frequently than once a year, in average may not exceed NT\$ 1 million per year, and the ratio of average annual pure endowment proceeds to the insured amount for death may not exceed 20 percent. The premiums may not be paid in a lump sum. For the pure endowment portion of the insurance, reserves shall be provisioned by the level premium method.

2.15 Where a policy by design has a non-forfeiture value greater than the insured amount for death, benefits may be paid from the non-forfeiture value (in such case, the premium rate may be adjusted accordingly); where the surrender value is greater than both the insured amount and the non-forfeiture value, benefits may be paid from the surrender value.

2.16 Figures relating to non-forfeiture value, surrender value, and policy reserve may be presented either with or without money-back survival benefits being deducted, but an annotation must be added, as appropriate. If money-back survival benefits have been deducted, such shall be indicated; if the figures are presented without deducting the money-back survival benefits, it shall be explained that the money-back survival benefits payable to the insurance customer for the year in question shall be deducted from the figure for surrender value.

2.17 The policy reserve may not be less than the non-forfeiture value.

2.18 For non-participating life insurance products, the following

information, obtained using an established profit-testing model, shall be additionally submitted:

2.18.1 Profit metrics.

2.18.2 The distribution assumptions and analyses for the age, sex, premium paying period, and insured amount of the product.

2.18.3 Sensitivity test results, including the profit sensitivity of various assumptions, such as assumptions about rate of return on investment, mortality rate, decrement rate, and expense ratio.

2.18.4 What the company considers an acceptable profit target for each product, the expected profit for each product, and the break-even sales volume for each product.

2.18.5 The company's trend analysis and forecast for each of the assumptions set forth in the sensitivity test results under item 2.18.3 above, as well as the safety margins of its assumptions and analyses of the reasonableness thereof.

2.18.6 Values calculated using male and female insureds aged 5, 35 and 65 years of age by Method 2 in the attachment to the Directions for Information Disclosure for Participating and Non-Participating Life Insurance Policies (per 31 March 2003 Order No. Taiwan-Finance-Insurance-0920012416 of the Ministry of Finance).

### **Article 3**

3. Personal injury insurance

3.1 Where the insured under a personal injury insurance contract dies of illness, thereby causing termination of the contract, the insurance company shall of its own accord return any unearned premiums under the contract to the proposer, regardless whether any type of proceed has been received thereunder.

3.2 Where personal injury insurance includes different disability benefit multipliers for different accidents resulting in disability, it should be reminded that "[the instant disability,] when combined with a previous disability, entitles receipt of disablement benefits for a still more severe disability, provided that disablement benefits already paid shall be deducted."

### **Article 4**

4. Personal health insurance (including cancer insurance):

4.1 Medical insurance:

4.1.1 Provisions regarding daily hospital room benefits, hospitalization benefits, and surgical benefits shall be based on those in the Model Provisions for Hospitalization Expense Insurance Policies. Subparagraphs 1 through 5 of Article 6 of the aforementioned Model Provisions regarding payment of hospitalization benefits shall be retained; subparagraph 6 need only be included where it is applicable in light of product design.

4.1.2 Policy proceeds per hospital stay may be limited individually ("per benefit limits") or in aggregate ("aggregate benefits limit"); one or the other of these options must be selected, and the selected limit(s) shall be reasonably reflected in costs.

4.1.3 The three subparagraphs regarding exceptions (cause) and six subparagraphs regarding exceptions (peril) shall be based on the Model Provisions. Where an injury necessitates dental surgery or the fitting of an artificial tooth or prosthetic limb or any other accessory, a limit on the amount may be stipulated, provided that such limit shall be faithfully reflected in the pricing actuarial memorandum.

4.1.4 It may be stipulated that payment of benefits is restricted if "[the insured] is insured under the National Health Insurance Program but does not receive medical treatment in that status".

4.1.5 A policy that insures a party not covered by social insurance shall be designed separately and shall stipulate the method for payment of benefits where "[the insured] is insured as a party not covered by social insurance but receives medical treatment as a party covered by social insurance". This requirement does not apply where product design can overcome this issue.

4.1.6 Provisions regarding claims for policy proceeds may, dependent on the manner in which benefit limits are imposed, add the wording "and a medical expense statement" (when a per benefit limit is adopted) or "or a medical

expense statement" (when an aggregate benefit limit for each hospital stay is adopted). Where it is stipulated that an original receipt for medical expenses is required, in addition to agreement by signature of the proposer, the return premium shall be disclosed and stipulated in the proposal in accordance with Points 3 and 4 in the explanation column of Article 17 of the Model Provisions. However, those provisions may not be cited where a company sells two or more policies to a customer. Where an original is not provided with a benefit claim, the company shall pay per diem benefits.

4.1.7 If an original receipt is required to claim insurance benefits for medical insurance, it shall be handled in accordance with explanation column 3 of Article 17 of the Model Provisions for Hospitalization Expense Insurance Policies.

4.1.8 When a medical insurance contract takes effect, insurance liability shall begin immediately. If a separate observation period is required due to the characteristics of the line of insurance, it is advised that such be provided in the definition for "illness" or "critical illness".

4.1.9 Where per diem medical insurance stipulates payment of benefits for expenses incurred in fitting of an artificial tooth, limb, eye, or eyeglasses, hearing aid or any other accessory as a result of an accidental injury event, the payment method should be clearly provided.

4.1.10 Per diem medical and hospitalization benefits may not exceed NT\$5000 per day.

4.2 Cancer insurance:

4.2.1 Where, at the time the insured suffers loss of life or total disability, the "proceeds for first cancer occurrence" have not been received, the surrender value or any unearned premiums shall be returned to the proposer; the premium rate shall reflect the fact that the "proceeds for first cancer occurrence" will only be received once in [the insured's] lifetime.

4.2.2 The insured peril in cancer insurance is cancer; it is inappropriate to exclude carcinoma in situ.

4.2.3 The benefits stipulated in a "postmortem diagnosis" provision of cancer whole life insurance shall extend to pathologic examinations undergone "without any prior hospitalization." Accordingly, it is inappropriate to presume the "inception of the last 'hospital stay'" to be the date of cancer occurrence.

4.3 Waiver of premium:

4.3.1 The insured in a waiver of premium rider shall be the proposer of the master contract.

4.3.2 Where a waiver of premium rider contains a provision stipulating that it is terminated forthwith upon termination of the master contract, upon notice of termination of the rider by the proposer, or upon change of the master contract to paid-up or extended term insurance, it is advised that the company take care to make clear provisions for the case where the rider falls within a period to which waiver of premium is applied.

4.3.3 Where occurrence of a peril insured against under a waiver of premium rider triggers a waiver of premiums under the master contract and/or any supplemental contract, the company is advised, in keeping with the spirit of annuity insurance, to stipulate that the proposer is not allowed to terminate the master contract and such supplemental riders (including the original waiver of premium rider).

4.3.4 Where a one-year rider contains a guaranteed renewable provision and the insured under the master contract suffers loss of life or disability or attains the maximum renewal age:

4.3.4.1 If the situation arises within a period to which waiver of premium applies, the rider shall either remain in effect or provide the right for conversion into a master contract.

4.3.4.2 If the situation does not arise within a period during which waiver of premium applies, the rider shall:

4.3.4.2.1 be terminated forthwith, in which case any unearned premiums shall be returned, or

4.3.4.2.2 remain in effect until expiry of the period for which the current premium was paid.

4.3.5 Attention should be paid as to whether a waiver of premium provision (whether incorporated in a master contract or stipulated in a rider) has

any substantive meaning, such as in a case where the benefit conditions for a waiver of premium for either total disability or critical illness are identical to those in the master contract. It is also advisable for individual companies to check their current policies for similar circumstances.

#### 4.4 Critical illness:

4.4.1 Where a "critical illness" item such as "paralysis" or "major organ transplant surgery" results from a cause other than illness, the observation period restriction does not apply.

4.4.2 Where critical illness health insurance provides that premiums will be refunded when the insured suffers total disability, it is advisable that the company take note that it is required to provide clear provisions regarding payment of benefits for total disability and critical illness if the state of total disability overlaps with the definition of critical illness.

#### 4.5 Other matters:

4.5.1 Where policy provisions restrict benefit items or the number of benefit payments (if, for example, it is stipulated that cancer does not include carcinoma in situ, that bone marrow transplant is limited to once in lifetime, or that prosthetic breast reconstruction is limited to once in lifetime per breast), the relevant incidence rates used to calculate premiums shall be adjusted accordingly.

4.5.2 A stipulation may be made requiring a medical report to be submitted in an application for reinstatement of a lapsed policy.

4.5.3 Contract termination provisions may not stipulate that "termination may not be made if benefits have been claimed for".

4.5.4 Where the insured under a health insurance contract dies, thereby causing termination of the contract, the insurance company shall of its own accord return the surrender value or any unearned premiums under the contract to the proposer, regardless whether any type of proceeds has already been received thereunder, except where death proceeds under the contract have already been paid and where mortality decrement has already been factored into the cost of other benefits, in which case a disclosure shall be made in either the proposal or the policy provisions.

4.5.5 If health insurance provisions contain a stipulation that the insurer may require the insured to undergo a medical examination upon application by an insurance customer for payment of benefits, or a stipulation that when different hospitals or doctors give different diagnoses the company may specify another hospital or doctor to make a diagnosis, then please provide an explanation of the necessity in writing when the product is submitted for review.

4.5.6 When a health insurance contract provides, with respect to the handling of mistakes concerning age, that the contract is void if true age exceeds the insurable age limit set by the company, it should be noted that the provisions of Article 122 of the Insurance Act regarding life insurance are not among the list of provisions that apply mutatis mutandis to health insurance under Article 130.

4.5.7 Where permanent health insurance is provided through a family policy, it is inappropriate for the definitions of spouse, child, or any other insured to impose limits on insurance age (the age of the insureds during the effective term of the contract).

4.5.8 In designing insurance policies, individual companies may decide at their own discretion whether or not to cover congenital diseases, provided that such must be reflected in the premium rates. Further, a company not insuring against congenital diseases in a policy shall specifically list the names of uncovered congenital diseases in the brochures, proposals, and provisions. The brochures and proposals shall also use text of a different color, printed in bold and in a larger font, to indicate that diseases not specified therein will be deemed to be within the scope of coverage.

4.5.9 Payments of proceeds for impairment are also a type of disablement benefit, in which lump sum payments and installment payments only differ in payment method. Therefore, such benefits differ in nature from annuities and are not subject to the annual limit of NT\$1.2 million for annuity payments. However, payments shall still be made in accordance with the benefit ratios in the disability table.

4.5.10 The maximum insuring amount for health insurance may not exceed

NT\$10 million.

4.5.11 The maximum payment of disablement assistance proceeds shall be NT\$2.4 million per annum.

4.5.12 When calculating the cost of each benefit in a health insurance policy to be newly launched, a company shall use either its own experience data or the latest statistics from a relevant Executive Yuan agency or any hospital as the basis for assessment of premium rates. Furthermore, consideration shall be given to and adjustments made based on the results of future trend analysis.

4.5.13 With the exception of cancer insurance, the observation period for health insurance shall be limited to 30 days and the premiums for the observation period shall be excluded from the calculation base.

Furthermore, where a policy lapses for any reason and later is reinstated, the reinstated policy may not provide for another observation period.

4.5.14 For long-term health insurance, the risk control measures must be explained. It must be indicated, for example, whether there is a premium adjustment mechanism, coverage limit, or deductible, and how reinsurance is to be arranged.

4.5.15 Where the premium paying period for long-term health insurance is 10 years or less, a decrement rate may not be applied. Where the premium paying period is greater than 10 years and a decrement rate is applied with no surrender value, such shall be noted below the name of the insurance line, together with the major benefit items. In order to protect the rights and interests of the insured, where the business is underwritten in the form of a rider, the rider shall remain in effect under all circumstances, except that it terminates upon death of the insured or when the proposer applies for termination; provided, however, that the rider shall remain in effect where the premium paying period has ended and the premiums have been fully paid, where a waiver of premium is in effect, or where insurance benefits are to be paid due to the occurrence of an insured peril.

4.5.16 With insurance for a specific group, such as student insurance, the special characteristics of the group and region shall be considered, and the incidence rate in that group for various illnesses shall be reflected in the premium rate.

## Article 5

5. Comprehensive personal insurance:

5.1 Where a life insurance policy offers double indemnity for accidents, exclusions that are specific to personal injury policies shall not be included in the policy provisions.

5.2 Where a life insurance policy contains health insurance or personal injury insurance benefits, any exclusions shall be separately set forth for each type of benefit.

5.3 Where a life insurance policy contains additional health insurance or personal injury benefits (including waiver of premium), the expense loading factor and the various reserves for the health insurance or personal injury insurance portion shall be handled in accordance with requirements governing the expense loading factors and various reserves for health insurance and personal injury insurance, respectively; provided that, in principle, the anticipated expense loading factor may not exceed the anticipated expense loading factor used for the life insurance portion.

## Article 6

6. Group insurance:

6.1 Among the duty of disclosure provisions may be included duty of disclosure for insureds, but such duty may only be imposed on each insured individually, and in a separate paragraph.

6.2 Group personal injury insurance may not contain a "contract invalidation" clause.

6.3 Experience refund provisions shall be included in contract provisions, not in endorsements, and may not stipulate that refund will be made only at the time of policy renewal.

6.4 Where a coverage extension includes a provision relating to increase in cost of insurance, both the coverage extension and the method used for calculating any necessary resultant increase in reserves shall be submitted in a single filing made with the competent authority under use-and-file

rules.

#### **Article 7**

7.Traditional annuity insurance:

7.1 "Deferred period" means the period from the beginning of premium payments until the beginning of benefit payments. Where an enterprise's policy design includes a "deferred benefit period" (a period from the end of the premium paying period until the beginning of benefit payments), a different term shall be adopted in order to avoid confusion between the two terms.

7.2 It should be noted that an annuity insurance contract stipulating that the proposer does not have the right to reinstate the policy is inconsistent with Article 116 of the Insurance Act as applied mutatis mutandis under Article 135-4 of the same Act.

7.3 If a contract contains "contract reinstatement" provisions, the company shall expressly include in the pricing actuarial memorandum the method and formula for calculating "back premiums owed" when the insurance customer seeks reinstatement.

7.4 Where premiums for deferred annuity insurance have been paid in full for two years or longer, the insurer may only reduce the annuity amount, and is not allowed to terminate the contract (Insurance Act, Article 117, paragraph 4).

7.5 Where the payment mode for a deferred annuity is designed as a single-premium payment, an explanation of the risk control measures shall be provided.

7.6 The provisions for adjustment in interest rate for the policy reserve for newly-written business in response to any rise or fall in market interest rate shall be listed in full.

7.7 In principle, the limit to the insuring amount (annuity amount) may not exceed NT\$1.2 million annually.

7.8 When selling a policy, an insurance company shall fully disclose in the brochure and proposal whether the policy contains participating premiums, and, if so, the bases and method of calculation, as well as the bases and payment method for dividends, and the insurance customer shall provide signed acknowledgment that he understands the information.

7.9 When submitting an annuity insurance product for review, if the submitting company does not attach all the relevant information used as a basis to calculate premiums (e.g. anticipated risk incidence rate, interest rate, expense loading factor, etc.), it shall supplement the missing information .

#### **Article 8**

8.Interest-sensitive annuity insurance:

8.1 The submission of an interest-sensitive annuity insurance product for review shall be handled in accordance with the "Directions for Interest-Sensitive Annuity Insurance Products" adopted by the competent authority.

8.2 Policy provisions shall be drafted with reference to the "Model Provisions for Interest-Sensitive Annuity Insurance Policies" issued by the competent authority.

8.3 Calculation of premium rates and provisioning of policy reserves shall be handled in accordance with the "Directions for Interest-Sensitive Annuity Insurance Policy Premium Rates" adopted by the competent authority.

#### **Article 9**

9.Basic guidelines for investment-linked insurance products:

9.1 The deadline for payment of the surrender value of an investment-linked insurance product, and any interest payments due if the deadline is missed, shall be handled in accordance with requirements for traditional life insurance.

9.2 For an investment-linked insurance product, the timing of policy surrender and conversion/redemption of the subject investments shall be disclosed.

9.3 In principle, the policy value of an investment-linked insurance product shall be notified in writing at least once a quarter. Such must be clearly indicated in the policy provisions.

9.4 If there are any misrepresentations in the notifications given by the

proposer or insured, the amount of the investment account value shall be returned.

9.5 Where the proposer of an investment-linked insurance product takes out policy loans in an aggregate amount greater than the policy value, the insurance company has an obligation to notify the proposer. Such must be clearly indicated in the policy provisions.

9.6 Please clearly list the procedures for future adding of subject investments.

9.7 For an investment-linked insurance product with supplemental contract, if premiums due are deducted from the policy value of the investment-linked insurance product, specific provisions shall be made as to order of deductions in the event policy value is insufficient to cover the deduction of one entire premium installment that has come due.

9.8 When an investment-linked insurance product is submitted for review, the ratio of the insured amount to the total amount of premiums to be paid shall be specified in the submitted materials.

9.9 Where cost of insurance for an investment-linked insurance product is absorbed by the company or covered by the expense loading, the various reserves for that portion are still required to be provisioned.

9.10 In principle, for an investment-linked insurance product, the amount in the investment account plus the insured amount for death in total may not exceed NT\$60 million.

9.11 For investment-linked insurance products submitted for review, accounting treatment shall be clearly described.

9.12 In principle, the minimum insuring age for investment-linked insurance products shall be 14 years last birthday.

9.13 Terminating age for the whole life insurance portion of an investment-linked insurance product shall be no less than 95.

9.14 In principle, benefits for the annuity insurance portion of an investment-linked insurance product shall be paid until at least 100 years of age.

9.15 Where the annuity amounts for an investment-linked annuity insurance product are variable, there shall be clear provisions setting forth the method for calculating remaining annuity balance in the event [all or part of the] remaining annuity balance is collected in advance during the guaranteed period of the annuity.

9.16 Where the proposer does not choose an annuity starting date, it is inappropriate to make the annuity starting date later than the first policy anniversary date after the insured reaches the attained age of 70.

9.17 After annuity payments have begun on an investment-linked fixed annuity product, with respect to the portion for which the policy reserve has heretofore been provisioned on the basis of an assumed annual interest rate of 5.75 percent, a switch shall be made to a variable rate, to be calculated using the Ministry [of Finance's] "Automatically Adjusted Actuarial Formula for Policy Reserve Interest Rates for New Business."

9.18 The maximum annual annuity amount for investment-linked annuity insurance shall be NT\$1.2 million.

## **Article 10**

10. Investment-linked life insurance:

10.1 In principle, when a policy is sold as a master contract, its supplemental contract shall be for one-year insurance, and the insured under the supplemental contract and master contract shall be the same person. The method and sequence for premium payment by means of deduction [from investment returns] shall be clearly provided for in the policy provisions.

10.2 The policy provisions [of investment-linked life insurance policies] shall address at least the following matters (with the additional proviso that policies identical in nature to traditional life insurance must further be drafted with reference to the "Model Provisions for Life Insurance Policies"):

10.2.1 Matters that must be periodically disclosed to the insurance customer, and the frequency of such disclosure.

10.2.2 The investments and allocation ratios that the insurance customer either agrees to or is allowed to designate.

10.2.3 Any changes to investments or to allocations thereto.

- 10.2.4 Any change in the special ledger to the subject investments available for selection by the insurance customer must be filed with the competent authority under file-and-use rules.
- 10.2.5 Restrictions and fees applying to the conversion of subject investments.
- 10.2.6 Mortality cost or maximum mortality cost.
- 10.2.7 Fees or maximum fees.
- 10.2.8 The method for payment of the insured amount for death, and any changes thereto.
- 10.2.9 Any changes in the amount of the guaranteed minimum death benefit.
- 10.2.10 Payment of the surrender value.
- 10.2.11 Upon partial policy surrender, how sources of funds withdrawn are to be apportioned within the investment account, and how the funds are to be paid.
- 10.2.12 The premium mode and maximum premium amount.
- 10.2.13 The method for calculating the amount of and interest on premiums invested in the investment account.
- 10.2.14 Dividend participation and method of dividend payment for a participating policy.
- 10.2.15 Grace period, suspension, and reinstatement.
- 10.2.16 Where policy conversion is allowed, such shall be expressly indicated in the contract.
- 10.2.17 The processing of policy loans, maximum amount thereof, the interest rate, and method of interest calculation.
- 10.2.18 Where the value of any asset in the special ledger cannot be determined due to special circumstances (e.g. where a stock exchange suspends business on a non-holiday or where the competent authority for the securities industry restricts trading of the invested asset), the insurance company may defer payment of death insurance benefits, payment of surrender value, change to designation of subject investments or the allocation thereof, and disbursement of policy loans.
- 10.2.19 The timing of foreign exchange transactions and calculation of exchange rates (applicable to investments in foreign financial instruments).
- 10.2.20 The basis for calculation of the unit value for the investment account in the special ledger.
- 10.2.21 The basis for calculation of the asset value for the investment account in the special ledger.
- 10.2.22 Provisions regarding the right to revoke the contract.
- 10.2.23 The timing of payment calculations (including the definition of a business day) as well as the handling of delayed payments.
- 10.3 The pricing actuarial memorandum must include the following:
- 10.3.1 Anticipated risk incidence rate:
- 10.3.1.1 The method for determining the anticipated risk incidence rate used to calculate mortality cost or maximum mortality cost.
- 10.3.1.2 The anticipated risk incidence rate used to calculate mortality cost may not exceed the applicable limit set by the competent authority.
- 10.3.2 The method of calculating or determining fees or maximum fees, and the information upon which these calculations or determinations are based.
- 10.3.3 Policy reserve: In principle it shall be calculated in accordance with provisions prescribed by the competent authority; where the competent authority has not made provisions, relevant foreign data and an explanation of the reasonableness of such reserve shall be submitted.
- 10.3.4 Where the policy stipulates that there will be a guaranteed minimum death benefit during the policy period or a guaranteed minimum asset value in the investment account upon the expiry of the policy period, the company should provide an explanation regarding financial planning.
- 10.3.5 Any restrictions upon the ratio of death benefits to premiums paid (insured amount).
- 10.3.6 Any limits upon premiums paid shall be listed, including the upper and lower limits.

## Article 11

### 11. Investment-linked annuity insurance:

- 11.1 In principle, when a policy is sold as a master contract, its supplemental contract shall be for one-year insurance, and the insured

under the supplemental contract and master contract shall be the same person, provided that these restrictions only apply during the accumulation period. The method and sequence for premium payment by means of deduction [from investment returns] shall be clearly provided for in the policy provisions.

11.2 The policy provisions [of investment-linked annuity insurance policies] shall address at least the matters listed below (with the additional proviso that policies identical in nature to traditional annuity insurance or interest-sensitive annuity insurance must further be drafted with reference to the "Model Provisions for Personal Deferred Annuity Policies" or the "Model Provisions for Interest-Sensitive Annuity Insurance Policies"):

11.2.1 Matters that must be periodically disclosed to insurance customers, and the frequency of such disclosure.

11.2.2 The investments and allocation ratios that the insurance customer either agrees to or is allowed to designate.

11.2.3 Any changes to investments or to allocations thereto.

11.2.4 Any change in the special ledger to the subject investments available for selection by the insurance customer must be filed with the competent authority under file-and-use rules.

11.2.5 Restrictions and fees applying to the conversion of subject investments.

11.2.6 Fees or maximum fees during the deferred period.

11.2.7 Payment of the surrender value during the deferred period.

11.2.8 Upon partial policy surrender during the deferred period, how sources of funds withdrawn are to be apportioned within the investment account, and how the funds are to be paid.

11.2.9 The premium mode and maximum premium amount.

11.2.10 The processing of policy loans, maximum amount thereof, the interest rate, and method of interest calculation.

11.2.11 Dividend participation and method of dividend payment for a participating policy.

11.2.12 Choices as to the payment method upon expiry of the deferred period.

11.2.13 Where the value of any asset in the special ledger cannot be determined due to special circumstances (e.g. where a stock exchange suspends business on a non-holiday or where the competent authority for the securities industry restricts trading of the invested asset), the insurance company may defer payment of death insurance benefits, payment of surrender value, change to designation of subject investments or the allocation thereof, and disbursement of policy loans.

11.2.14 The timing of foreign exchange transactions and calculation of exchange rates (applicable to investments in foreign financial instruments).

11.2.15 The basis for calculation of the unit value for the investment account in the special ledger.

11.2.16 The basis for calculation of the asset value for the investment account in the special ledger.

11.2.17 Provisions regarding the right to revoke the contract.

11.2.18 The timing of payment calculations (including the definition of a business day) as well as the handling of delayed payments.

11.3 The pricing actuarial memorandum must include the following:

11.3.1 The method of calculating or determining fees or maximum fees, and the information upon which these calculations or determinations are based.

11.3.2 Policy reserve: In principle it shall be calculated in accordance with provisions prescribed by the competent authority; where the competent authority has not made provisions, relevant foreign data and an explanation of the reasonableness of such reserve shall be submitted.

11.3.3 Where the policy stipulates that there will be either a guaranteed minimum death benefit during the deferred period or a guaranteed minimum asset value in the investment account upon the expiry of the deferred period, the company should provide an explanation regarding financial planning.

11.3.4 Where the policy contains a death benefit, any restriction upon the ratio of death benefits to premiums paid (insured amount) shall be listed.

11.3.5 If a maximum starting age for annuity payments has not been

stipulated, the starting age shall be 70.

11.3.6 Any limits upon premiums paid shall be listed, including the upper and lower limits.

## Article 12

12. Other matters:

12.1 Individual insurance companies have discretion in setting forth their own requirements for premium loans, provided that requirements pertaining to the scope, method, and order of premium loans for each master contract and rider (a company may stipulate, for example, that the scope of premium loans covers the master contract and any riders attached subsequently) shall also be clearly disclosed in the proposal and agreed to by the proposer. Where there is doubt, an interpretation favoring the insured shall be adopted.

12.2 Where a limited payment whole life policy rider contains a provision that it will be terminated if the master contract is terminated, it is appropriate that the rider also stipulate measures other than termination in a situation where the premium-paying period has ended and the premiums have been fully paid.

12.3 The date of contract termination should be concrete and specific, so that the rights and obligations of both parties to the contract may be clearly ascertained.

12.4 The wording of policy provisions must be tailored to the specific characteristics of the insurance. For example, if the insurable age starts at 0, the policy may not contain a provision stating that "where coverage is incorrectly extended to a person under the minimum insurable age, the policy may not take effect until attainment of minimum insurable age."

12.5 Insurance coverage and the exclusion provisions should be as consistent as possible with the applicable requirements referenced by such policy. Where there is a discrepancy, such shall be disclosed and explained.

12.6 The meaning of terms must be consistent throughout a contract in order to prevent any doubt about their meaning.

12.7 An insurance contract may not include protection for non-insured persons (such as "policy proceeds for family member funeral").

12.8 Where policy renewal is guaranteed, the grace period with respect to payment of premiums for the renewal year shall be specified in the policy provisions.

12.9 For a policy with more than one insured, separate provisions should be made stating the duties of disclosure for the proposer and each of the insureds as well as the effect of such duties on the validity of the contract. Where an individual insured breaches such a duty, the effect of such breach on contract validity should extend to that insured only, not to the entire contract.

12.10 The duty-of-disclosure requirements in an insurance proposal should be compliant with the Civil Code.

12.11 The term "hospital" as used with respect to life insurance, personal injury insurance, and health insurance must be defined as set forth in the Model Provisions for Hospitalization Expense Insurance Policies.

12.12 A whole life insurance rider may only be attached to a master contract for whole life insurance.

12.13 Where a provision cites a schedule or attachment, the name cited shall be consistent with the name of the actual schedule or attachment to ensure that the provision is not without basis, and to avoid dispute.

12.14 A permanent health insurance rider shall state that the rider is to be attached to a master contract for the company's whole life insurance.

12.15 In principle, where an insured peril occurs or the insurance period expires, the insured amount shall be paid in a lump sum except where otherwise stipulated in an insurance contract either in compliance with the law or in view of the specific characteristics of the line of insurance.

12.16 The maximum insuring amount for each insured under credit card insurance shall be the maximum amount that can be charged on the credit card.

12.17 Provisions should be separately numbered for each coverage extension and separately presented by insurance type.

12.18 The provisions of a coverage extension or endorsement shall clearly

state the names of any products that may be added or endorsed.

12.19 Citation of "Ministry-issued model provisions" or "clauses last submitted for review" shall be strictly faithful to the original, and should not deviate in any way.

12.20 Insurance lines shall be categorized by reference to the statutory categorization or the statistical categories as used in the insurance statistics of an industry association. For example: the term "personal injury insurance" should be used rather than "accident insurance," and whole life insurance with pure endowment benefits paid every three years shall be called "whole life insurance" rather than "pure endowment with whole life insurance".

12.21 The content of benefits should match the insurance customer's expectations, and the design should not provide for reduction of benefits.

12.22 In order to avoid disputes, where insurance brochures, advertisements and other promotional materials include information pertaining to rights and obligations between the insurance company and the proposer and/or insureds, it should be highlighted using a larger font and a different color.

12.23 Statements of benefit payment conditions and benefit content in the pricing actuarial memorandum shall be consistent with those in policy provisions.

12.24 Experience data cited when calculating the anticipated risk incidence rate should be from the most recent 3 to 5 years.

12.25 The anticipated risk incidence rate:

12.25.1 When citing domestic or foreign data, photocopies of the data shall be attached. When using the company's own experience data, the relevant statistical reports shall be attached.

12.25.2 Where the rate is adjusted or set as a composite figure on the basis of domestic or foreign data (i.e. a single rate, or an adjusted or a composite one, is set on the basis of one or many adjusted incidence rates, or the basis of combined multiple rates), the calculation thereof and the process of calculation shall be explained; the same applies when the rate is based on the company's own adjusted or composite experience data.

12.25.3 When domestic and/or foreign data is cited as basis for the setting of an anticipated risk incidence rate, care shall be taken to ensure that such data is reflective of exclusions and benefit payment conditions in the policy provisions. For example, where a provision stipulates that critical illness includes cancer but not carcinoma in situ, the data cited in calculating the incidence rate may not cover carcinoma in situ. When foreign data (including data provided by a reinsurance company) is cited, attention shall be paid to the consistency of such data with the benefit payment conditions in the policy provisions.

12.26 The policy reserves, assumed interest rates, and expense loading factors for a product that combines life insurance and annuity insurance shall be calculated separately for those two elements pursuant to the respective requirements governing life insurance and annuity insurance policy reserves, assumed interest rates, and expense loading factors. Furthermore, attention shall be paid to the compatibility of those two elements in the product.

12.27 The profit margins incorporated in the premium rates for health insurance and personal injury insurance shall be less than that for other types of insurance.

12.28 Where it is claimed that decrement rate has been accounted for in the design of a given product, a product that "accounts for decrement rate and has no surrender value" shall be compared with a product that "does not account for decrement rate and has surrender value." The comparison shall at the very least include premiums and reserves.

12.29 The symbols used in the formulas to calculate pure premiums, gross premiums, and reserves shall be clearly defined. For example, where premium rates are calculated by age group, a subscript symbol shall be used to indicate the relevant age group.

12.30 Where the minimum insurable age is 0, calculations shall be made from the date of birth.

12.31 In principle, the safety loading factor (including the standard deviation added for each risk incidence rate) used in calculation of the pure premium may not exceed 30 percent.

12.32 Where the assumed interest rate used to calculate premiums exceeds by a quarter point or more the interest rate used for provisioning of the policy reserve, a statement (signed jointly by the manager of the investment department and the signing actuary for the relevant product) shall be submitted based on an interest rate sensitivity analysis, indicating the measures to be taken if the return on investment falls below a certain interest rate level, as well as an explanation attesting to the reasonableness of the product price (signed by the signing actuary).

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Data Source : Financial Supervisory Commission Laws and Regulations Retrieving System