

Advisory Guidelines
of the Financial Supervision Authority

Unit linked life assurance policies - components, underlying assets and disclosure to policyholders

Having regard to the need for the elaboration of Article 8 clause 5 of the Insurance Activities Act (hereinafter: IAA) and Article 428 clause 2(4) of the Law of Obligations Act, and based on Article 57 clause 1 of the Financial Supervision Authority Act, the Management Board of the Financial Supervision Authority has approved the advisory guidelines “Unit linked life insurance policies - components, underlying assets and disclosure to policyholders” with its Decision No. 10-3 of 25.02.2004.

1. Objective of the Advisory Guidelines

The objective of the guidelines is to define minimum requirements to unit linked life insurance policies, in order to assure the uniform understanding and offering of the respective insurance class by insurers.

The guidelines lay down the minimum amount of information that shall be disclosed to policyholders in respect of underlying assets of unit linked life insurance policies.

2. Definitions

- 2.1. Unit linked life insurance is a life insurance class where the volume of either single or regular benefits paid by insurers is conditioned by the value of underlying assets of policies and by the amount of the sum assured as guaranteed by policies.
- 2.2. Underlying assets of unit linked life insurance policies are the aggregate of financial instruments specified by these policies.
- 2.3. The value of underlying assets is the sum of market values of financial instruments included in these assets.
- 2.4. The simplified prospectus is a paper containing the information specified by these guidelines, in respect of each financial instrument included to underlying assets.

3. Requirements to Underlying Assets

Underlying assets may include only the following financial instruments:

- Shares or other similar tradable rights, which are tradable on regulated securities markets of Estonia, A-zone of the Organisation for Economic Cooperation and Development (OECD) countries¹ or member countries of the European Union;
- Bonds, convertible bonds or other issued and freely tradable debt obligations, which are freely tradable on regulated securities markets of Estonia, A-zone of the Organisation for Economic Cooperation and

¹ A-zone – includes all full members of the Organization for Economic Cooperation and Development (OECD) and countries that have concluded specific loan agreements with the International Monetary Fund (IMF) pursuant to the General Agreements to Borrow (GAB) of IMF. Still, each country restructuring its foreign debt shall be excluded from the A-zone for five years. Countries included to the A-zone as at 01.09.2003 are: Australia, Austria, Belgium, Spain, Holland, Ireland, Island, Italy, Japan, Canada, South Korea, Greece, Luxembourg, Mexico, Norway, Poland, Portugal, France, Sweden, Germany, Saudi Arabia, Slovakia, Finland, UK, Switzerland, Denmark, Czech Republic, Turkey, Hungary, USA, New Zealand

Development (OECD) countries or member countries of the European Union;

- Debt securities issued for a term of up to one year that are usually traded on money markets and the issuer of which is registered either in Estonia, in an A-zone of the Organisation for Economic Cooperation and Development (OECD) country or in a member state of the European Union (money market instruments);
- Investment fund units;
- Demand and term deposits with credit institutions registered either in Estonia, in an A-zone of the Organisation for Economic Cooperation and Development (OECD) country or in a member state of the European Union;
- Derivatives which are acquired for hedging the risk of underlying assets' value fluctuation, where the impartial evaluation of the derivative's value is guaranteed, provided that that the person with whom the transaction is made is either a credit institution, a fund manager, an investment fund, an insurer or a securities intermediary.

4. Requirements to Unit Linked Life Insurance

- 4.1. Each unit linked life insurance policy shall include the sum assured guaranteed up to either the maturity of the policy or the commencement of payment of contractual benefits (except for a partial payment made out of underlying assets).
- 4.2. The sum assured of the main policy guaranteed in case of death shall never be less than 102% of the value of underlying assets of the respective policy.
- 4.3. Insurers shall provide investment services related to insurance policies with due professionalism, precision and care, proceeding primarily from the best interests of policyholders.
- 4.4. Upon presenting single financial instruments during the offer of unit linked life insurance products (incl. advertising), insurers shall guarantee that these financial instruments are presented as underlying assets of insurance policies and that policyholders are fully aware of the fact that the conclusion of insurance contracts does not mean the acquisition of respective financial instruments.
- 4.5. Upon offering unit linked life insurance products, insurers shall obtain information from policyholders regarding their knowledge and experiences in the specific investment field, and their investment objectives and risk tolerance levels.

5. Notification of Policyholders Regarding Underlying Assets

- 5.1. Insurers may compile investment portfolios of financial instruments listed in clause 3, and present to policyholders the information on investment portfolios stated in clause 5.11 (a simplified prospectus) as a whole, provided that single financial instruments are not separately presented to policyholders during the offer.
- 5.2. Information provided by these guidelines shall be presented in a simplified prospectus by single financial instruments, and it shall be clearly formulated, organized and drafted in Estonian or in any other language, subject to agreement with policyholders.

- 5.3. Policyholders shall be furnished with a simplified prospectus in a format enabling a written reproduction, or with reference to the source enabling the written reproduction. Insurers shall provide the simplified prospectus on paper, if requested by policyholders.
- 5.4. Information on investment funds included in underlying assets and registered in Estonia or in a foreign country, whereas the public sale of their units or shares has been registered with the Financial Supervision Authority, may be disclosed to policyholders as provided by the Investment Funds Act.
- 5.5. Information on securities included in underlying assets and publicly offered in Estonia by Estonian and foreign issuers, and which prospectuses have been registered in the Financial Supervision Authority, may be disclosed to policyholders as provided by the Investment Funds Act.
- 5.6. Insurers shall bear the risk of translating the information disclosed to policyholders and of the correctness of the translation.
- 5.7. Upon the conclusion of contract, insurers shall inform policyholders of any data on selected financial instruments that has to be disclosed, or provide relevant references.
- 5.8. Insurers shall up-date the data on underlying assets on an on-going basis, and present it to policyholders in a format enabling a written reproduction at least once a year and also upon changing the policy conditions.
- 5.9. Information presented by insurers shall coincide with the information provided by public reports, and the information published in various documents shall not be contradictory.
- 5.10. These guidelines provide minimum requirements to disclosed information. Insurers may include in the simplified prospectus also additional information that would make the nature of financial instruments and inherent risks more understandable to policyholders.
- 5.11. In order to achieve better understandability and readability, the simplified prospectus shall be divided into at least six subsections.

5.11.1. The first subdivision shall include the following general information:

- The class of the financial instrument;
- Jurisdiction;
- The regulated securities market where this financial instrument is traded;
- ISIN code;
- The underlying currency for calculating the value of the financial instrument;
- The date of emission, the date of foundation;
- The date of drafting the simplified prospectus;
- The date of data.

This subsection shall emphasize that this is a simplified prospectus of the respective financial instrument, and provide references to the official prospectus, if any.

5.11.2. The second subdivision shall explain the investment policy of the financial instrument, including:

- A short description of the financial instrument (in case of a fund, its structural division, based on geographical division, industrial division, and the like);

- A description of methods and manner used to achieve the investment objective;
- Main risk factors accompanying the respective financial instrument (e.g. concentrating investments in an industry, a country, a geographical region; the activity of issuer).

5.11.3. The third subdivision shall describe the profile of the investor. It sets briefly forth the characteristics of an investor for whom this financial instrument is intended, the appropriate investment period, potential fluctuations in investment value, etc.

5.11.4. The fourth subdivision shall include information on the value of the financial instrument:

- The nominal value;
- Value fluctuations in past 5-10 years;
- Performance (interest rate of debt securities, coupon frequency, dividend rate);
- The value and principles of evaluation.

The person who has calculated the value and performance of the financial instrument shall be disclosed, and relevant references revealed.

It shall be prohibited to present a simulated (derived) outcome (incl. productivity).

Where the relevant benchmark is used for comparing the outcome, the respective financial indicators shall be publicly available and consistent with the nature of the financial instrument.

In addition, policyholders shall be informed in this subdivision that:

- The value calculation of financial instruments may vary in different jurisdictions, and that one should be cautious when comparing these values;
- The value of financial instruments is volatile;
- The past performance does not guarantee the similar future performance.

5.11.5. The fifth subdivision shall explain the distribution of the income achieved from financial instruments. It specifies whether the income is distributed to investors or reinvested. In case of distribution, it shall be disclosed when and how distributions are made.

5.11.6. The sixth subdivision shall disclose website addresses and other references providing additional information on financial instrument.

6. Entry into Force of Guidelines

The Financial Supervision Authority recommends applying these guidelines as of 01.04.2004.