

## Advisory Guidelines of the Financial Supervision Authority

### Life assurance policies disclosure of information to policyholders

The Law of Obligations Act provides for general requirements to the disclosure of information on insurance contract. It includes general provisions on information required during the conclusion, amendment and duration of a life assurance contract. The disclosure of technical data, that is relevant to clients as information on life assurance contract and needs to be disclosed to policyholders as clearly, transparently and explicitly as possible, has remained unspecified.

The Management Board of the Financial Supervision Authority has approved by its decision No 46-11 of 29.09.2004 the Advisory Guidelines "Life assurance policies – disclosure of information to policyholders", based on Articles 3 and 57(1) of the Financial Supervision Authority Act, in order to ensure the disclosure of uniform and complete information to policyholders and taking into account the need to harmonize the disclosure of technical data and to explain it to policyholders as clearly as possible.

#### 1. Object and scope of the Advisory Guidelines

1.1 The primary purpose of the Advisory Guidelines (hereinafter "the Guidelines") is to define and specify the technical aspects of information, provided by the Law of Obligations Act, that the insurer is required to disclose to a person who is wishing to conclude an insurance contract or who has concluded an insurance contract (hereinafter "policyholder") during the conclusion, amendment and duration of a life assurance contract (hereinafter "insurance contract"). Besides, it includes other recommendations on the disclosure of information on insurance contract.

1.2 As to unit linked life assurance contracts, the Advisory Guidelines of the Financial Supervision Authority "Unit linked life assurance policies – components, underlying assets and disclosure to policyholders" should be adhered to first of all. In cases that are not covered by these Guidelines the present Guidelines shall be adhered to.

1.3 The information to be disclosed as provided by the Guidelines is the information covered by mandatory rules of the Law of Obligations Act, Part 4, Chapter 23, Division 2. Besides information provided by law, insurers are entitled to disclose more information to policyholders, particularly when the disclosure of information ensures that the product is more clear and understandable to policyholders.

#### 2. General requirements to disclosure of information on insurance contract

2.1 Insurers and insurance intermediaries must ensure the availability of disclosed information to policyholders. The disclosed information must be clear to policyholders and easily accessible.

2.2 The disclosed information must be in a format which can be reproduced in writing, clearly expressed, organized and produced in Estonian or in another language, if agreed with the policyholder.

2.3 The payment of sums insured and indemnities, as well as hazards related to the insurance contract (e.g. pecuniary loss if the contract is cancelled, mortality risk, etc.) must be explained in a balanced manner and in a language that is easily understandable by policyholders.

2.4 There is no requirement that the disclosed information must be presented in a single document, but it must be clear to policyholders in which document the disclosed information is available

2.5 The information that insurers present to policyholders when insurance contracts are offered (incl. advertised) and concluded must be essentially the same as the information disclosed during the offer. Information published in different documents shall not be contradictory

2.6 The disclosure of the rate of return of an insurance contract must be based to values backed by the insurance contract. When insurers present to policyholders the results (incl. rate of return) that are received by simulation (derived values), they must explicitly state that these are simply estimates. As to profit-sharing insurance policies, the principles of profit determination and distribution must be clearly explained to policyholders.

2.7 Policyholders must be informed of their rights to contest the contract or to withdraw from the contract.

2.8 The data of insurance contract should be amended in a format which can be reproduced in writing.

2.9 Information disclosed to policyholders must include information on basic and supplementary insurance contract(s).

### **3. Requirements to disclosure of technical data when insurance contract is concluded**

3.1 Insurer must disclose to policyholders at least the following data when concluding the insurance contract, either in monetary terms or, if this is impossible, in percentages for each insured year during the validity of the insurance contract:

- Insurance premiums (premium forecast in case of a free schedule of payments) for basic and supplementary contract(s);
- Costs related to insurance contract, either for each cost item or as a total;
- Interest guarantee and interest rate guarantee; in case of insurance contracts where the interest rate is guaranteed only for a certain period (years), insurers should disclose the interest rate guarantee for the guaranteed period and the realistically forecasted interest rate for the time beyond the guaranteed period, explicitly stating that this is the estimate;
- Risk premium for basic and supplementary contract(s) (if the risk premium for basic or supplementary contract(s) differs from the reference premium, insurers should explain this difference to the clients);
- The size of provision at the end of the period;
- Costs related to the cancellation of contract, if the cancellation is possible;
- Surrender value, if the insurance contract has got one;
- Premium-free amount.

3.2. Besides data provided in point 3.1 of the Guidelines, insurers must provide policyholders with the explanation on used terms and the product, as well as draw policyholders' attention to the fact that the respective figures are true insofar as policyholders pay insurance premiums in times, terms and amounts agreed in the insurance contract.

### **4. Requirements to disclosure of information when technical data of insurance contract is amended**

4.1. Policyholders must be informed in writing when the data provided during the conclusion of insurance contract is amended, indicating the monetary value of data listed in point 3.1 of the Guidelines after the amendment becomes effective. Also, costs related to the amendment of insurance contract and the size of provision at the time of amendment must be disclosed.

4.2. Principles provided in point 3.2 of the Guidelines must be adhered to when disclosing information on the amendments.

### **5. Requirements to disclosure of technical data during the period of validity of insurance contract**

The annual disclosure to policyholders of the size of life provision provided in Article 429 of the Law of Obligations Act has been performed fully and comprehensibly if besides the explanation on used terms at least the following data in monetary terms or, if this is impossible, in percentages is presented:

- Insurance premiums collected during the period;
- Estimate of costs, either for each cost item or as a total;
- Guaranteed interest received during the period;
- Risk premium;
- The size of provision at the end of the period;
- Surrender value;
- Extra profit allocated during the period and the rate of extra profit;
- Payments to the policyholder during the period;
- Gross extra profit of insurance contract and its formation principles.

### **6. Entry into force of Advisory Guidelines**

The Financial Supervision Authority regards it advisory to implement the Guidelines in respect of life assurance contracts concluded as from 01.04.2005 as well as in respect of valid life assurance contracts