In any competition, performance is key. It's no different when it comes to choosing an insurance plan. Before we talk about how to evaluate the performance of an insurance policy, let's find out what a participating policy is!

Many insurance policies on the market are participating policies, including whole life insurance policies, annuity plans and savings insurance policies. Participating products provide both guaranteed and non-guaranteed benefits.

Depending on the insurance plan you've chosen, guaranteed benefits may include a death benefit, guaranteed cash value and other payouts, and are not affected by changes in market conditions. Non-guaranteed benefits come from the return on the investments made by the insurance company, including annual dividends and special bonuses.

With a participating policy, the policyholder can share in the profits from the investments made by the insurance company - in the form of dividends and bonuses.

Insurance companies invest the premiums paid by policyholders in funds with a balanced, diversified asset portfolio. That's why fund performance will directly affect the return on participating policies.

Insurance companies adopt different investment strategies to support the objectives of different insurance plans, and try to deliver long-term wealth growth potential for policyholders. When considering an insurance plan, be sure to look at the projected benefit amounts in the insurance proposal. But keep in mind, the non-guaranteed benefits in an insurance proposal are projections. The actual amounts paid will depend on the performance of the insurance company's investments and may be higher or lower than the projected figures.

So how do you determine whether the dividend amounts declared for your policy are consistent with the projections in the insurance proposal? Under the Insurance Authority's guidelines, insurance companies are required to disclose the fulfillment ratios of their insurance policies to enable policyholders to review their dividend declaration history.

So how do you calculate a policy's fulfillment ratio? It's simple. Divide the actual non-guaranteed benefit paid by the projected non-guaranteed benefit in the insurance proposal, and you have the fulfillment ratio.

Let’s assume, for ABC Participating Policy, the insurance proposal projects a non-guaranteed benefit of USD30,000 in the 6th policy year. If the actual non-guaranteed benefit paid is the same as the projection, the fulfillment ratio would be 100%. But typically, the actual non-guaranteed benefit paid is either higher or lower than what is projected. So let’s look at those scenarios.

If the actual non-guaranteed benefit paid is USD32,700, we’d divide USD32,700 by USD30,000, for a fulfillment ratio of 109%. By contrast, if the actual non-guaranteed benefit paid is USD26,700, the math would be USD26,700 divided by USD30,000, which works out to a fulfillment ratio of 89%.

Let’s look at another example. If two different policies have different fulfillment ratios, how would that affect the results? Let’s say Policy A has a fulfillment ratio of 109% and the non-guaranteed benefit projected in the insurance proposal is USD50,000. That’s USD50,000 multiply by 109%, and the actual non-guaranteed benefit paid is therefore USD54,500.

On the other hand, if Policy B has a fulfillment ratio of 88% and the projected non-guaranteed benefit in the insurance proposal is USD60,000, we’d multiply USD60,000 by 88%. And the actual non-guaranteed benefit paid would drop to USD52,800.

From this comparison, we can see that even though Policy A’s projected non-guaranteed return is lower than Policy B’s, it has a higher fulfillment ratio. As a result, it ends up delivering a higher non-guaranteed return. The difference made by the fulfillment ratio is clear.

So keep in mind, if a policy has a higher projected non-guaranteed benefit but a lower fulfillment ratio than other policies’, that will have an impact on the actual amount paid.

Obviously, if you know how to compare fulfillment ratios, then choosing the right policy would be much easier! Remember, though, that past fulfillment ratios are for reference only and should not be taken as indicators of future performance.

For the fulfillment ratios of different HSBC Life insurance products, visit this webiste for more information.