



## **ADDENDUM TO THE ASISA RETAIL EAC STANDARD**

### **STANDARD ON EFFECTIVE ANNUAL COST (EAC)**

### **FOR UNIVERSAL LIFE PRODUCTS**

**First published:** 1 October 2018

**Last updated:** 25 February 2025



## 1. INTRODUCTION

- 1.1. This **Standard on Effective Annual Cost for Universal Life Products** (“**Standard**”) is attached to and forms part of the **ASISA Retail Standard on Effective Annual Cost** (“**Retail EAC Standard**”). It deals specifically with universal life products.
- 1.2. To the extent that any of the terms and provisions contained in this Standard may contradict or conflict with any of the terms and provisions of the **Retail EAC Standard**, the provisions of this Standard take precedence and supersede the **Retail EAC Standard**.
- 1.3. All other provisions of the **Retail EAC Standard** shall remain as is.
- 1.4. This Standard is being shared with ASISA members and the public at large for their consideration and implementation, and is binding on ASISA members.

## 2. SCOPE

- 2.1. Universal life products are a type of flexible permanent life insurance offering a combination of term life insurance as well as an investment savings element. This Standard is aimed at linked investment service providers and product providers (“**Providers**”) which offer universal life products, except for those referred to paragraph 2.2 below (“**Universal Life Products**”).
- 2.2. This Standard (and by implication, the **Retail EAC Standard**) does not lend itself out to:
  - 2.2.1. universal life products which are risk products. In determining whether or not the product in question is a risk product or an investment/savings product, the market value as at the date of the effective annual cost (“**EAC**”) calculation should be used where the market value of a specific investment is the sum of the values of all the underlying funds or assets (as applicable) in which that investment invests. It should be determined whether or not the market value is more or less than the sum assured at a policy level. If less than the sum assured at a policy level, the product may be classified as a predominantly risk product and will not fall within the ambit of this Standard. Where the market value is more than the sum assured at a policy level, the product may be classified an investment/savings product;



- 2.2.2. reversionary bonus products; or
  - 2.2.3. with-profit annuities sold prior to 2000 to the extent that Providers have closed these products to new business and investors within those products are unable to transfer to a similar product with an alternate provider.
- 2.3. In the event that Providers are requested to provide a cost break-down on reversionary bonus products or the abovementioned with-profit annuities, Providers should make full and adequate disclosures, including all applicable charges, to the investor.

### 3. GOVERNANCE

- 3.1. Paragraph 4 of the **Retail EAC Standard** requires every Provider to submit a compliance certificate to ASISA. In terms of this Standard, every Provider shall include in the certificate to ASISA, a specific reference to their Universal Life Products, certifying that the Provider's EAC calculations and disclosures for these Universal Life Products comply in all respects with the letter and spirit of this Standard.

### 4. EAC CALCULATION PRINCIPLES

- 4.1. To the extent reasonably possible for Universal Life Products, Providers should utilise the calculation methodologies encapsulated in the **Retail EAC Standard** and, where this is not reasonably possible, Providers should disclose the EAC as set out in this Standard.
- 4.2. The EAC comprises two separate components into which various charges are allocated. Each charge should be expressed as a percentage of the market value. The components are:
  - 4.2.1. combined charges (as described in paragraph 5.3); and
  - 4.2.2. other charges (as described in paragraph 5.4).



## 5. THE CALCULATION METHODOLOGY FOR EACH COMPONENT

- 5.1. The EAC should be calculated separately for each of the relevant components and then summed to derive the EAC for the Universal Life Product as a whole, using the following formula:

$$EAC[total] = EAC[Combined] + EAC[Other]$$

- 5.2. The value for each of the components, as well as the total EAC, should be displayed in a table at maturity in accordance with the table in **Annexure “A”** attached hereto (“**EAC table**”). Where there is no maturity date, paragraph 5.3 of the Retail EAC Standard, dealing with the lack of a specified term, may be applied. Providers may, in addition to the existing EAC table and disclosures, disclose an additional row below the EAC table, indicating the EAC value using the realisable value as a starting point (as set out in the example in **Annexure “A”**). The realisable value is the market value at the time of calculation, less any termination charge, plus any loyalty bonus which would be added to the investment on immediate termination. This additional EAC value should be clearly explained and disclosed in the free text notes.

### 5.3. **The Combined Charges (EAC[Combined])**

- 5.3.1. Combined charges should include all costs and charges that are expressed as a percentage of the market value per annum related to advice fees, commissions, distribution, administration and investment management charges.
- 5.3.2. Performance fees (where applicable) should be calculated consistently with the assumed return in the EAC calculation.
- 5.3.3. Where any charges are levied monthly, these should be annualised and expressed as a percentage of the market value and a free text note should be included, setting out exactly which charges are contained under EAC(Combined).

### 5.4. **The Other Charges [EAC(Other)]**

- 5.4.1. The EAC[Other] calculation should include any capital or guarantee charges, the impact of termination charges, penalties or loyalty bonus payments that are reasonably foreseen. These shall also include, but shall not be limited to, guarantees, smoothing or risk benefits, guarantee charges, the cost of limiting



investment returns, wrap fund charges and the cost of any risk benefits such as waiver of premium or death benefits. (If the cost of any risk benefit is separately identifiable and the risk benefit can be removed or added to the Financial Product at any point in time without otherwise impacting the savings/investment product or its terms, the cost need not be included in the EAC[Other] calculation, but should be disclosed separately in an accompanying free text note.) In essence it is the “catch all” to contain any remaining charges that will be levied against a Universal Life Product.

- 5.4.2. A free text note should be included, setting out exactly which charges are contained under EAC[Other], including, but not limited to exit penalties, loyalty bonuses and guarantee charges. Where possible, and in particular where exit penalties and/or termination charges may apply, Providers should calculate the EAC values at the time periods encapsulated in the Retail EAC Standard. Where not possible, information regarding such charges should be made available to investors in the free text notes.
- 5.4.3. The EAC[Other] component should only be shown in the EAC table where it has a non-zero value.



### DOCUMENT HISTORY

| Date                                 | Publication and amendments   |
|--------------------------------------|--|
| 1 October 2018 and 2019 respectively | Approved by ASISA Board on 13 September 2018.                          |
| 19 July 2022                         | Amended certain table headings.  |
| 25 February 2025                     | Reviewed from a competition law perspective by external legal counsel. |

### RESPONSIBLE COMMITTEES & SENIOR POLICY ADVISER

|   |  |
|---|--|
| <b>Responsible Senior Policy Advisor</b>    | ASISA Point Person to the Marketing and Distribution Board Committee |
| <b>Responsible ASISA Board Committee</b>    | Marketing and Distribution Board Committee                           |
| <b>Responsible ASISA Standing Committee</b> | Standards and Disclosures Standing Committee                         |



## ANNEXURE “A”

### EXISTING BUSINESS EXAMPLE OF AN EAC TABLE

#### **[Notes to Providers:**

*The values used are for illustration only. The format of the table and paragraph above the table are required by this Standard. Providers may add further explanatory wording as they deem necessary, taking cognisance of the principles set out in the Standard. The wording beneath the table provides an example of the type of explanations which may relate to a particular Universal Life Product as outlined in the Standard.*

*For existing Universal Life Products, Providers may, in addition to the existing EAC table and disclosures, disclose an additional row below the EAC table, indicating the EAC value using the realisable value as a starting point (as described in the Standard and indicated below). This additional EAC value should be clearly explained and disclosed in the free text notes.]*

#### **EFFECTIVE ANNUAL COST: EFG PRODUCT OF COMPANY ABC**

The Effective Annual Cost (EAC) is a measure which has been introduced to allow you to compare the estimated impact of charges on investment returns when you invest in different financial products. It is expressed as an annualised percentage. The EAC is made up of two components, which are added together, as shown in the table below. The figures only show the estimated impact of immediate and future charges, and do not include the impact of any charges that have already been incurred. The effect of some of the charges may vary, depending on your investment period.

#### **EAC for your current investment (if only using the first table below)**

or

#### **EAC if you intend to continue with your current investment (if using both tables below)**

The table below shows the EAC calculation assuming that you continue with your current investment in the financial product and terminate at maturity date. The figures ignore all charges incurred to date.



## FUND VALUE

| Impact of future charges     | Investment assumed to end after term to maturity -<br>Next xx<br>Years |
|------------------------------|--|
| Combined <sup>1</sup>        | 1.0%   |
| Other <sup>2 3 4 5</sup>     | 0.0%   |
| <b>Effective Annual Cost</b> | 1.0%   |

**[Note to Providers: This section and line item is optional:]**

EAC if you are considering replacing your current investment

The table below shows the EAC calculation using the current realisable value rather than the market value as the starting value for the EAC calculation. This is the value that would apply now if you were to terminate your current investment in the financial product in order to replace it. The EAC table of an alternative financial product should be compared with the information below in order to determine whether or not the replacement may be in your best interest from an effective annual cost-comparison perspective.

## SURRENDER VALUE

|                                       | Term to maturity - Next xx<br>Years |
|---------------------------------------|-------------------------------------|
| Impact of future charges <sup>6</sup> | 1.8%                                |

**[Note to Providers: Explanations to be in clear, plain and unambiguous language appropriate to the product and target market at the Providers' discretion.]**

|          |   |
|----------|---|
| <b>1</b> | Includes all charges expressed as a percentage of the market value per annum, including but not limited to advice fees, commissions, distribution, administration and investment management fees. |
|----------|---|



|   |  |
|---|--|
| 2 | <p>Includes a termination charge that will be incurred if the investor terminates his or her investment in the financial product (to the extent such a charge is applicable). Please note, if you terminate your investment prior to the maturity date, termination charges and/or exit penalties [<i>will/will not</i>]* apply. It is unfortunately not possible to project such charges under the EAC calculations, however the product provider will provide you with information in this regard upon request.</p> <p><b>[*Note to Providers: Providers to specify.]</b></p>  |
| 3 | <p>The values shown are the expected annual reduction in return after your investment forgoes all or part of the return above a specified level. The actual reduction in return may vary significantly as it will depend on how the markets perform during your investment in this financial product.</p>  |
| 4 | <p>Includes accrued guarantee charges.</p>   |
| 5 | <p>Includes an allowance for loyalty bonuses which will have been earned and vested at the appropriate period end (reducing the charge).</p>   |
| 6 | <p>Total EAC, calculated by adding the components and using the current realisable value rather than the market value as the starting value for the EAC calculation. The realisable value is the market value at the time of calculation less any termination charge plus any loyalty bonus which would be added to the investment on immediate termination. Please note, if you terminate your investment prior to the maturity date, termination charges and/or exit penalties [<i>will/will not</i>]* apply. It is unfortunately not possible to project such charges under the EAC calculations, however the product provider will provide you with information in this regard upon request.</p> <p><b>[*Note to Providers: Providers to specify.]</b></p> |