Here's The 7-Year Historical Fund Performance of Singapore's Insurance Companies

Description

Have you ever signed up for an insurance policy, happily thinking about how you can get a large payout when your policy matures in 10/15/20/30 years time?

After all that waiting, you excitedly cash in on your policy…only to find yourself disappointed when you receive a much lower payout than what you had been expecting all these years.

If that scenario sounds familiar to you, you're not the only one.

How they compare

Investment returns on insurers' participating funds

Company Year	AIA (%)	Aviva (%)	AXA (%)	GE (%)	Manulife (%)	NTUC Income (%)	Prudential (%)	Tokio Marine (%)
2008	-11.2	-9.44	-5.90	-11.27	-8.71	-11.10	-23.9	-17.13
2009	13.1	12.31	3.75	9.52	16.65	12.00	23.4	20.05
2010	7.2	6.63	4.44	6.58	7.32	5.90	7.2	6.68
2011	2.5	1.30	4.11	1.54	-0.94	-0.88	0.2	-0.72
2012	9.8	9.35	10.20	9.76	10.65	8.56	11.0	10.57
2013	1.0	0.19	-2.96	3.62	-0.92	1.63	5.2	2.35
2014	6.5	5.42	7.57	7.08	5.15	5.45	5.9	6.41

NOTE: 1. Figures are based on the most representative sub-funds' performance of each insurer.
2. Some insurers manage their participating funds by setting up smaller sub-funds, and each sub-fund would usually have a different investment strategy to correspond to the benefits of the products written out of the sub-fund.
3. Past performance does not represent future performance.

Source: LIA AND RESPECTIVE INSURERS ST GRAPHICS

There has been some discussions lately about how policyholders are not happy that they are not getting the kind of returns which they think they should be getting.

The difference between projected maturity values and the actual payouts by insurance companies can be quite significant. Not too long ago, a Singaporean woman in her late 50s lodged her complaint against her insurance after she was taken by surprise when her policy matured and gave her a lower maturity payout than the projected maturity values she had been expecting.

The illustrated terminal bonus had also not been paid to her upon the policy's maturity. However, her insurer's merely reiterated that **"the projected maturity values were not guaranteed, something that was stated in the contract".**

Wow.

My friend Kyith wrote a great piece recently which I thought was worth sharing. With his permission, I've edited parts of his article and reproduce it together with the original content (in blue) here.

There are many different categories of insurance, but for simplicity's sake, we can generally group policies into 2 groups – those with cash values vs. those without.

Whole life insurance, endowment plans and universal life policies are examples of those which come with a cash value when the policy matures. When you buy such policies, you are essentially putting the responsibility of building your wealth into the hands of your insurance company.

Of course, these people are not going to help you build your wealth for free (with the exception of financial bloggers). These insurance companies charge this fee by taking from a portion of your insurance premiums paid, which we can generally refer to as "distribution costs". In other words, your insurance premiums are being split 3 ways – (i) protection coverage (ii) investing into funds (iii) paying the fund managers in your insurance company.

How well your insurance policies do will depend on the performance of the participating funds.

The participating funds mostly invest in a combination of: equities, government & corporate bonds, property, and cash.

If you refer back to this original table (retrieved from The Straits Times), you'll be able to see how the different funds generally performed over the past 7 years.

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Kyith is a very skeptical person when it comes to financial matters (somewhat like me), and his discerning eye picked out what the original author, Lorna Tan, mentioned:

> According to LIA's compilation of life funds' returns requested by The Sunday Times, insurers Manulife, Prudential, AIA and Tokio Marine have **achieved average returns of above 4 per cent per annum over a seven-year period ending 2014.**

He thus decided to verify this by running the numbers to find out what is the compounded average growth rate of the participating funds, based on the table of returns we just examined.

Company Year	AIA	Aviva	AXA	GE	Manulife	NTUC Income	Prudential	Tokio Marine	STI ETF	ABF Bond ETF	60% ST ETF 40% ABF BOND ETF
2008	-11.20%	-9.44%	-5.90%	-11.27%	-8.71%	-11.10%	-23.90%	-17.13%	-45.07%	5.80%	-24.72%
2009	13.10%	12.31%	3.75%	9.52%	16.65%	12.00%	23.40%	20.05%	65.16%	1.94%	39.87%
2010	7.20%	6.63%	4.44%	6.58%	7.32%	5.90%	7.20%	6.68%	12.36%	3.38%	8.77%
2011	2.50%	1.30%	4.11%	1.54%	-0.94%	-0.88%	0.20%	-0.72%	-13.81%	5.58%	-6.05%
2012	9.80%	9.35%	10.20%	9.76%	10.65%	8.56%	11.00%	10.57%	20.71%	3.23%	13.72%
2013	1.00%	0.19%	-2.96%	3.62%	-0.92%	1.63%	5.20%	2.35%	2.95%	-3.89%	0.21%
2014	6.50%	5.42%	7.57%	7.08%	5.15%	5.45%	5.90%	6.41%	7.92%	6.86%	7.50%
CAGR	3.86%	3.46%	2.90%	3.60%	3.88%	2.83%	3.21%	3.46%	2.37%	3.22%	4.02%

This genius is all Kyith. I own no credits.

If you're confused by his table above, no worries. The last row (highlighted in blue) is all you need to take note of.

Presuming Kyith's calculations are accurate, how did The Straits Times end up with the figure of 4% average returns? The table below explains it (again, look at the blue row):

Company Year	AIA	Aviva	AXA	GE	Manulife	NTUC	Prudential	Tokio Marine
2008	-11.20%	-9.44%	-5.90%	-11.27%	-8.71%	-11.10%	-23.90%	-17.13%
2009	13.10%	12.31%	3.75%	9.52%	16.65%	12.00%	23.40%	20.05%
2010	7.20%	6.63%	4.44%	6.58%	7.32%	5.90%	7.20%	6.68%
2011	2.50%	1.30%	4.11%	1.54%	-0.94%	-0.88%	0.20%	-0.72%
2012	9.80%	9.35%	10.20%	9.76%	10.65%	8.56%	11.00%	10.57%
2013	1.00%	0.19%	-2.96%	3.62%	-0.92%	1.63%	5.20%	2.35%
2014	6.50%	5.42%	7.57%	7.08%	5.15%	5.45%	5.90%	6.41%
Average return	4.13%	3.68%	3.03%	3.83%	4.17%	3.08%	4.14%	4.03%
CAGR	3.86%	3.46%	2.90%	3.60%	3.88%	2.83%	3.21%	3.46%

Credits: Matthew

So why do we get back lesser money than expected?

One of the reasons could be due to the fact that **part of your money goes towards paying your insurer** for doing the job of building wealth for you. (This is also one of the reasons why I eventually decided to cancel my ILP, once I learnt about this. My agent did not explain this fully from the onset when I first signed on the form to purchase.)

Now, go back to Kyith's table above and you will notice that the last 3 columns (in blue) examines a scenario of what would have happened if you had bought into one of the publicly-available funds yourself.

(I emphasize "publicly-available", because this is another selling tactic many agents use when they try to sell you policies with cash value – that you have access to so-called "premium" funds that ordinary retail investors cannot buy into.)

If you had invested in blue-chip stocks (the STI ETF), you would have only gotten slightly over 2% returns. Not surprising, considering how the markets have fared recently. If you had put your money on safer options like bonds, you would have done slightly better. (To understand why, you need to understand how different investment tools perform in different economic situations. Recap here.)

Most insurers will combine both stocks and bonds in your funds, which you can compare in the third column, where Kyith has used an imaginary scenario of a portfolio comprising 60% blue-chip stocks and 40% government bonds. (You could call it "diversifying".)

The results here are exceptional – you get a return of 4.02%, higher than ANY of the other insurance companies in this same period.

This is a portfolio that you can easily replicate, which can likely OUTPERFORM the various insurance funds, as we have seen above. The question is, are you willing to spend those few minutes doing it?

There are NO DISTRIBUTION COSTS to be paid in this instance. All your money goes towards your investments, because you have DIY-ed.

Still think it is better to hand your money over to your insurer instead?

Category

1. Insurance
2. Investing