



A review on the recent court decision on single premium immediate annuities(SPIAs)

ABSTRACT

Recently, insurance companies have received a favorable court decision on single premium immediate annuities(SPIAs) case. In this recent ruling, the court made a different decision than the previous rulings as to whether the calculation method of monthly annuity payment was incorporated as a part of the policy terms and whether the insurance company provided a proper explanation on this calculation method. As the trial courts have ruled conflicting judgements on these issues, we should closely monitor the pending lawsuits on SPIAs claims.

1. Structures of SPIAs and key issues in the case

An single premium immediate annuity(SPIA) is an insurance contract in which a policyholder pays a single complete sum of money as insurance premium to an insurance company and receives regular disbursements immediately(usually from the following month). SPIAs can be classified into (i) the pure lifetime type, (ii) the fixed term type, (iii) the inheritance lifetime type and (iv) the inheritance maturity type, depending on the payout options such as whether only the annuities are paid or the single premium is also returned to the beneficiary at maturity. The annuity contract at issue in the lawsuits is the inheritance maturity type SPIA, under which a beneficiary receives monthly annuity during the insurance period and the full amount of single premium s/he paid in as a maturity benefit.



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The key issue here is that, whether it is possible for the insurance companies to deduct a certain portion of the accrued interest for the maturity benefit, when calculating the amount of monthly annuity. To elaborate the idea, the calculation of monthly annuity payment of the inheritance maturity type is structured as follows:

〈Table 1〉 Calculation of monthly annuity payment

- ① Deduct a risk premium and expected expenses from the premium paid by policyholder, then it is a “net premium”
- ② Calculate the accrued interest which is the basis for monthly annuity payment: Multiply the “net premium” by the credited interest rate (max [declared interest rate, minimum guaranteed interest rate])
- ③ A certain portion of amount from ② is set aside as an annuity policy reserve to refund the single premium to the beneficiary at maturity
- ④ Only the balance after deducting such reserve from ③ is disbursed as a monthly annuity payment

In step ③ above, insurance companies set aside a certain portion of the amount calculated in step ② into the annuity policy reserve. This is because insurance companies must pay the full amount of the single premium to the beneficiary as a maturity benefit, which is greater than the net premium, i.e. the premium net of risk premiums and expenses. Therefore, a certain amount needs to be deposited into the annuity policy reserve to match the aggregate amount thereof to the single premium the policyholder paid at the issue of the annuity policy.

However, the concern was that even though the additional deduction in step ③ was stated in the 「Calculation Methods of Insurance Premiums and Policy Reserves」(the “Methods”), it was neither explicitly included in the policy terms, nor explained sufficiently to the policyholders at the issue of the annuity policy. Therefore, the key issues in the case were ① whether the calculation method of monthly annuity payment under the Methods was incorporated as a part of the policy terms, and ② whether the insurance company has provided a proper explanation about this calculation method.



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2. Court decision on the issues

Regarding the first issue, the recent court ruling¹⁾, unlike the previous ones, stated that the part related to the calculation of monthly annuity payment under the Methods could constitute a part of the policy terms. To be more specific, the past court rulings stated that in order for the Methods to be interpreted as a part of the policy terms, the policy should include an explicit statement such as “the monthly annuity payment is calculated based on the Methods.” But since the policy concerned did not have such explicit statement, the Methods could not constitute a part of the policy terms. However, in the recent ruling, the court decided that the part related to the calculation of monthly annuity payment under the Methods could be interpreted as a part of the policy terms or at least the policy terms are premised on the calculation under the Methods, based on the facts that: (i) the policy terms include an explicit statement that the annuity policy reserves (which is the basis for calculating the monthly annuity payment) are calculated according to the Methods, (ii) the methods of calculating monthly annuity payment pertain to the rights and obligations of the contracting parties, (iii) the policy quotation states that the calculation of monthly annuity payment is based on the Methods.

The second issue is about whether the deduction part in the step ③ was sufficiently explained to the policyholders. Unlike the previous court rulings, the recent court decision stated that the policyholder has received enough explanation to decide whether to conclude the insurance contract or not. In the past cases, the court held that in the case of the inheritance maturity type SPIA, the insurance company should have to explain to the policyholder the deduction part in the step ③ that “certain portion of the accrued interest is set aside as a source for maturity benefits.” On the other hand, in the recent case, the court decided that the deduction part did not in itself affect the conclusion of the insurance contract and therefore was not subject to explanation. The policyholder in this case heard the explanation on the amount of expected monthly annuity according to the inheritance maturity type and the inheritance lifetime type, and selected the inheritance

1) Seoul Central District Court Decision 2019Gahap500661 Decided October 13, 2021.



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maturity type with a small monthly annuity but a larger amount to be returned at maturity. Based on the facts, the court ruled that it was not the case where the policyholder would not have entered into the insurance contract or would have chosen other types of plan than the inheritance maturity type even if the policyholder had known the specific method of calculating the monthly annuity or the fact that certain portion of the accrued interest is deducted as a source for maturity benefits.

The recent court decision also added that, even in case the calculation part under the Methods is not interpreted to constitute a part of the policy terms, the monthly annuity payment in this case should be calculated based on the Methods. In the past cases, the courts ruled that as the deduction part cannot be incorporated as a part of policy terms, the calculation method should be interpreted to be favorable to the policyholder and therefore the monthly annuity payment should be the amount of the accrued interest calculated by applying the insurer's credited interest rate on net premium without deduction. However, in the recent case, the court ruled that if the Methods do not constitute the policy terms, the calculation of monthly annuity payment should be interpreted by taking into account the policy terms and all other matters surrounding the insurance contract, and it is appropriate to calculate the monthly annuity payment according to the Methods.

As the trial courts have ruled conflicting judgements on SPIAs cases, we should closely monitor the following court decisions on other pending SPIAs lawsuits.

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