

G.N. 5699

INSURANCE ORDINANCE (Chapter 41)

Pursuant to section 133(1) of the Insurance Ordinance (Chapter 41), the Insurance Authority publishes the following guidelines, all of which will come into operation on 23 September 2019:—

1. Guideline on Offering of Gifts ('GL25');
2. Guideline on Sale of Investment-Linked Assurance Scheme ('ILAS') Products ('GL26');
3. Guideline on Long Term Insurance Policy Replacement ('GL27');
4. Guideline on Benefit Illustrations for Long Term Insurance Policies ('GL28');
5. Guideline on Cooling-off Period ('GL29'); and
6. Guideline on Financial Needs Analysis ('GL30').

13 September 2019

Clement CHEUNG Chief Executive Officer Insurance Authority

GL 25

**GUIDELINE
ON
OFFERING OF GIFTS**

Insurance Authority

Contents

	<u>Page</u>
1. Introduction.....	1
2. Interpretation.....	1
3. Relevant Regulatory Documents and Status of this Guideline.....	2
4. Scope of Application.....	3
5. Restriction on offering Gifts	4
6. Premium Rebates and Commission Rebates	5
7. Procedures and Controls	5
8. Commencement.....	6
9. Transitional Provision.....	6
Permitted Gifts	Annex

1. Introduction

- 1.1 The Insurance Authority (“IA”) issues this Guideline pursuant to section 133 of the Insurance Ordinance (Cap. 41) (the “Ordinance”), its principal function to regulate and supervise the insurance industry for the protection of existing and potential policy holders and its function to promote and encourage the adoption of proper standards of conduct and sound and prudent business practices by authorized insurers and licensed insurance intermediaries. This Guideline also takes into account the Insurance Core Principles, Standards, Guidance and Assessment Methodology (“ICP”) promulgated by the International Association of Insurance Supervisors, in particular ICP 19 which stipulates that the conduct of the business of insurance should ensure that customers are treated fairly.
- 1.2 The offering of Gifts (as defined in Section 2 of this Guideline) or other similar gratuities in the marketing, promotion or distribution of insurance products may unduly influence or otherwise distract customers when it comes to making informed decisions in relation to insurance products and the suitability of such products to meet their insurance needs and other circumstances. In view of this, this Guideline provides guidance on certain restrictions on the use of gifts and rebates which authorized insurers and licensed insurance intermediaries should follow when marketing, promoting or distributing insurance products classed as long term business.

2. Interpretation

- 2.1 In this Guideline, unless the context otherwise specifies:
 - (a) “Class A Product” means any contract of insurance in Class A (Life and annuity) of Part 2 of Schedule 1 to the Ordinance.
 - (b) “Class C Product” means any contract of insurance in Class C (Linked long term) of Part 2 of Schedule 1 to the Ordinance. These are usually known as Investment-linked Assurance Scheme products.
 - (c) “Class D Product” means any contract of insurance in Class D (Permanent health) of Part 2 of Schedule 1 to the Ordinance.

- (d) “Customer” bears the same meaning as policy holder or potential policy holder, as those terms are used in the Ordinance.
- (e) “Gift” may include any kind of gift, incentive, enticement or inducement, whether financial or non-financial, but does not include:
 - (i) the payment of fees or commissions to licensed insurance intermediaries; or
 - (ii) any discount of premiums, fees or charges payable under a contract of insurance (i.e. insurance policy), provided that the discount is expressly stated in the quotation, offer letter, promotional materials, insurance policy or the policy schedule, thereby reducing the amount of premium, fee or charge the policy holder is obliged to pay under the terms of the insurance policy.
- (f) “Permitted Gift” means a gift listed in the Annex to this Guideline.
- (g) “Rebate” means:
 - (i) in relation to premiums, any repayment made as a gratuity directly or indirectly to a customer of an amount of premium previously paid by a customer; or
 - (ii) in relation to commissions, any payment made as a gratuity directly or indirectly to a customer by a licensed insurance intermediary of part of the commission received by the licensed insurance intermediary.

2.2 Unless otherwise specified, words and expressions used in this Guideline shall have the same meanings as given to them in the Ordinance.

3. Relevant Regulatory Documents and Status of this Guideline

3.1 This Guideline should be read, where appropriate, in conjunction with the relevant provisions of the Ordinance and all other relevant rules, codes, circulars and guidelines issued by the IA or other regulatory bodies, including but not limited to the following:

- (a) Guideline on Underwriting Class C Business (GL15) issued by the IA;
- (b) Guideline on Underwriting Long Term Insurance Business (other than Class C Business) (GL16) issued by the IA;
- (c) Code of Conduct for Licensed Insurance Agents issued by the IA;
- (d) Code of Conduct for Licensed Insurance Brokers issued by the IA;
- (e) Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission; and
- (f) All relevant rules, codes, circulars and guidelines administered or issued by the Hong Kong Monetary Authority in relation to gifts.

3.2 This Guideline does not have the force of law, in that it is not subsidiary legislation, and should not be interpreted in a way that would override the provision of any law. A non-compliance with the provisions in this Guideline would not by itself render an authorized insurer or licensed insurance intermediary liable to judicial or other proceedings. A non-compliance may, however, for example reflect on the IA's view of the continued fitness and properness of (i) the directors, controllers and key persons in relevant control functions of the authorized insurers to which this Guideline applies and (ii) the licensed insurance intermediaries to which this Guideline applies and (in the case of licensed insurance agencies and licensed insurance broker companies) their directors, controllers and responsible officers. The IA may also take guidance from this Guideline in considering whether there has been an act or omission likely to be prejudicial to the interests of policy holders or potential policy holders (albeit the IA will always take account of the full context, facts and impact of any matter before it in this respect).

4. Scope of Application

4.1 This Guideline applies to all authorized insurers carrying on long term business and all licensed insurance intermediaries carrying on regulated activities in relation to long term business.

5. Restrictions on offering Gifts

Class C Products

- 5.1 Authorized insurers and licensed insurance intermediaries should not directly or indirectly offer Gifts to customers when marketing, promoting or distributing Class C Products.

Class A Products and Class D Products

- 5.2 Authorized insurers and licensed insurance intermediaries should not directly or indirectly offer Gifts to customers when marketing, promoting or distributing Class A Products or Class D Products, unless the requirements in paragraph 5.3 are satisfied.
- 5.3 A Gift for the purposes of paragraph 5.2 may be offered or made to a customer only if, according to a reasonable assessment made by the authorized insurer or licensed insurance intermediary, the Gift would not distract the customer from making an informed decision on whether or not to purchase the product. Accordingly, the responsibility lies with an authorized insurer and licensed insurance intermediary to make an assessment as to whether, in their reasonable opinion, the proposed Gift would distract a customer in making such informed decision. In making such assessment, the authorized insurer or licensed insurance intermediary should take account of all the circumstances in which the Gift is proposed to be offered or made (including the value of the Gift relative to the amount of premium payable by the customer in relation to the product and the manner in which the Gift is to be marketed or offered). This assessment may be made either on a case-by-case basis or, if Gifts are to be offered or made as part of a marketing campaign or programme, at the time the marketing campaign or programme is formulated.

Permitted Gifts

- 5.4 As an exception to paragraphs 5.1 to 5.3 above, authorized insurers and licensed insurance intermediaries which offer Class A Products, Class C Products or Class D Products may offer Permitted Gifts as shown in the Annex, provided that the criteria referenced in the Annex in relation to each Permitted Gift is strictly adhered to.

Miscellaneous

- 5.5 The restrictions in paragraphs 5.1 to 5.3 also apply:
- (a) in relation to the marketing, promotion or distribution of a range, group or collection of insurance products, where one or more of those insurance products is a Class A Product, Class C Product or Class D Product; or
 - (b) in relation to the offering or provision of any Gift by an authorized insurer to a licensed insurance broker representing a customer.

6. Premium Rebates and Commission Rebates

- 6.1 Rebates of premiums or commissions should not be offered or paid to customers in relation to long term insurance products.
- 6.2 Paragraph 6.1 does not apply in relation to any rebates which are recorded in the contract of insurance, whether in the insurance policy, the policy schedule, the quotation or offer letter, or in any promotional material (the terms of which are incorporated by reference into the contract of insurance).

7. Procedures and Controls

- 7.1 Authorized insurers, licensed insurance agencies and licensed insurance broker companies should maintain robust internal procedures and controls, including adequate record keeping (with such records to be made available to the IA upon request), to ensure that they and their staff, including but not limited to their licensed individual insurance agents, licensed technical representatives (agent) or licensed technical representatives (broker), where applicable, comply with this Guideline. Authorized insurers should also give due consideration to the requirements of this Guideline when considering their sales practices and their dealings with their licensed insurance agents and the licensed insurance broker companies with which they do business (as the case may be).

8. Commencement

- 8.1 This Guideline shall take effect from 23 September 2019 (“Effective Date”).

9. Transitional Provision

- 9.1 The IA recognizes that the authorized insurers and licensed insurance intermediaries to which this Guideline applies may require time to update their documentation, controls and processes to align with the requirements in this Guideline. A transitional period of 12 months from the Effective Date (i.e. from 23 September 2019 to 22 September 2020) will therefore apply in respect of certain requirements of this Guideline (“Transitional Period”). During this Transitional Period, authorized insurers, licensed insurance agents or licensed insurance brokers shall comply with the provisions in this Guideline unless an alternative requirement is identified in the table below. If an alternative requirement is identified in the table below, during the Transitional Period, the alternative requirement may be followed in place of the identified provision in this Guideline by the authorized insurer or licensed insurance intermediary as referenced in the table below.

Topics	Provisions in this Guideline	Alternative Requirements
Restrictions on offering Gifts	Section 5	<p>During the Transitional Period, as an alternative to the sections of this Guideline referenced in the column headed "Provision in this Guideline",</p> <p>a) Authorized insurers which were carrying on long term business immediately prior to the Effective Date and their licensed insurance agents (including, in the case of licensed insurance agencies, the licensed technical representatives (agent) of the agencies) may continue to comply with the "Guidance Note on Gifts, Promotions and Incentives for Class A and Class C Products" and also, in the case of licensed insurance agents, paragraph 80(l) of the Code of Practice for the Administration of Insurance Agents (7th version dated 1 March 2010);</p>
Procedures and Controls	Section 7	<p>b) Licensed insurance broker companies registered immediately prior to the Effective Date with the Hong Kong Confederation of Insurance Brokers ("CIB") and their licensed technical representatives (broker) may continue to comply with Rule 7.13 of the Membership Regulations of the CIB (version dated 15 July 2015); and</p> <p>c) Licensed insurance broker companies registered immediately prior to the Effective Date with the Professional Insurance Brokers Association ("PIBA") and their licensed insurance technical representatives (broker) may continue to comply with Rule 5(d) of the Membership Regulations of PIBA (version dated 1 February 2015),</p> <p>and the referenced documents are adopted for the purposes of the Transitional Period.</p>

September 2019

Annex

Permitted Gifts

For the purposes of this Annex, “Relevant Products” means a Class A Product, Class C Product or Class D Product.

- (a) Allocation of bonus fund units and other similar product specific bonuses in respect of any Relevant Products (where applicable).
- (b) Gifts that are offered for “relationship building” purposes and are not tied to the marketing, promotion or distribution of any Relevant Products.
- (c) Gifts that can be redeemed at a later date under a customer loyalty programme through the accumulation of points provided that the number of points earned is not directly or indirectly linked to the volume or value of sales (or both) of any Relevant Products or, in the case of a licensed insurance broker, are not directly or indirectly linked to the distribution volume or a pre-determined level of sales of any Relevant Products.
- (d) Provision of sponsorship and support for customer information seminars, compliance support and financial planning software. The level of sponsorship and support should not be in the form of subsidy or cash equivalents and should not be directly or indirectly linked to the distribution volume or a pre-determined level of sales of any Relevant Products.
- (e) Brand building campaigns such as lucky draws that are open to all policy holders and potential policy holders and are not tied to the marketing, promotion or distribution of any Relevant Products.
- (f) Ancillary services that are relevant and reasonably found in any Relevant Products at no extra charge, such as medical check-ups, medical consultancy services or emergency SOS services.

**GUIDELINE ON
SALE OF INVESTMENT-LINKED
ASSURANCE SCHEME (“ILAS”)
PRODUCTS**

Insurance Authority

<u>Contents</u>		<u>Page</u>
1.	Introduction.....	1
2.	Scope and Interpretation.....	2
3.	Relevant Regulatory Documents and Status of this Guideline.....	4
4.	Fair Treatment of Customers in the Sale Process for ILAS Products.....	5
5.	The FNA Process.....	8
6.	The RPQ Process.....	9
7.	IFS, Applicant’s Declarations and Remuneration Disclosure.....	9
8.	Effective Controls and Procedures in relation to Suitability Checks and Product Disclosure.....	11
9.	Post-Sale Controls.....	12
10.	Certification of Copies of FNA and RPQ.....	13
11.	Documentation and Record Keeping.....	14
12.	Commencement.....	14
Indicative Sale Flow of Investment-Linked Assurance Scheme (“ILAS”) Products		Appendix

1. Introduction

- 1.1 The Insurance Authority (“IA”) issues this Guideline pursuant to section 133 of the Insurance Ordinance (Cap. 41) (“Ordinance”), its principal function to regulate and supervise the insurance industry for the protection of existing and potential policy holders and its function to promote and encourage the adoption of proper standards of conduct and sound prudent business practices by authorized insurers and proper standards of conduct by licensed insurance intermediaries. This Guideline also takes account of the Insurance Core Principles, Standards and Guidance and Assessment Methodology (“ICP”) promulgated by the International Association of Insurance Supervisors, in particular ICP 19 which stipulates that the conduct of the business of insurance should ensure that customers are treated fairly.
- 1.2 Linked long term business (as defined in paragraph 2.2(h) below), more commonly known as Investment-linked Assurance Schemes (“ILAS”) products are long term contracts of insurance which provide both life insurance protection and investment options. Customers who purchase ILAS products bear investment risk associated with the product. As ILAS products are long-term in nature, they also often have more restricted liquidity levels as compared with other forms of investments. The charging structure for ILAS products can also be complex, with fees being incurred in relation to both the insurance and investment elements of the contract. Given these features, it is important for authorized insurers and licensed insurance intermediaries to ensure that customers, before they purchase ILAS products, are fully apprised of the nature, key features and risks of such products, as well as the rights and obligations associated with such products. This is the main objective of this Guideline.
- 1.3 The Guideline on Underwriting Class C Business (GL15), which applies to authorized insurers, already stipulates proper standards of conduct and business practices for authorized insurers underwriting linked long term business, i.e. ILAS products, covering requirements in relation to both the design of ILAS products and the sale process for ILAS products. This Guideline supplements GL15 by including more detailed requirements on the sale process for ILAS products and setting out the minimum standards and practices that should be implemented and adopted by authorized insurers and licensed insurance intermediaries in that sale process in order to achieve the objectives stated in this Guideline and ensure fair treatment of customers.

2. Scope and Interpretation

2.1 This Guideline applies to all authorized insurers carrying on or advising on linked long term business, and all licensed insurance intermediaries carrying on regulated activities in respect of linked long term business.

2.2 In this Guideline, unless the context otherwise specifies:

- (a) “Applicant’s Declarations” means the written declarations which an authorized insurer and licensed insurance intermediary are required to obtain from a customer, as a check-point to assist the authorized insurer and licensed insurance intermediary to focus the customer’s attention on the suitability of the ILAS product for the customer and to confirm the customer’s understanding of the risks associated with the ILAS product (see further paragraph 7 below);
- (b) “Authorized institution” has the meaning assigned to it by section 2(1) of the Banking Ordinance (Cap. 155);
- (c) “Base plan” means the ILAS policy issued by the authorized insurer based on a customer’s original application. The base plan does not include any subsequent additional insurance cover purchased (such as top-up investment under the same policy) which are the subject of subsequent application(s) made by the customer on the same ILAS policy;
- (d) “Customer” bears the same meaning as policy holder or potential policy holder, and those terms are used under the Ordinance;
- (e) “Date of policy issue” means the date on which the authorized insurer, having accepted an application for an ILAS policy by the policy holder, creates the document that is the policy holder’s ILAS policy;
- (f) “Financial Needs Analysis” or “FNA” means the assessment of a customer’s circumstances including needs, financial situation, ability and willingness to pay premiums, etc. which an authorized insurer and licensed insurance intermediary are required to undertake before making any recommendation in respect of a suitable life insurance policy to the customer, with the recommendation being based on that assessment. The requirements in relation to an FNA are set out in Guideline on Financial Needs Analysis issued (GL30) by the IA (see further paragraph 5 below);

- (g) “Important Facts Statement” or “IFS” means the statement in relation to an ILAS product being recommended which should be provided to a customer and the content of which should include information such as the investment risk, liquidity risk and other risks associated with the product, the fees and charges structure for the product and the fact that the customer has a cooling-off period (see further paragraph 7 below);
- (h) “Linked long term business” refers to contracts of insurance in Class C (Linked long term) of Part 2 of Schedule 1 to the Ordinance. In this Guideline, a reference to an “ILAS product” or “ILAS policy” is to a contract of insurance within the definition of “linked long term business”;
- (i) “Point-of-sale audio recording” means an audio recording that an authorized insurer is required to arrange for a customer to listen to (in lieu of conducting a post-sale call), after the sale process for a base plan of an ILAS product has been completed with the customer (including after the customer having chosen the underlying investment choices in relation to the ILAS product he/she has purchased). The authorized insurer should arrange for the customer to listen to the audio recording at the place where the sale process for the ILAS product was completed, and the content of the audio recording should re-affirm the customer’s understanding of the ILAS product he/she has just purchased (and the underlying investment choices selected) and remind the customer of his/her rights and obligations under the ILAS product (see further paragraphs 4.2(k), 9.3 and 9.4 below); and
- (j) “Risk Profile Questionnaire” or “RPQ” means the questionnaire which a customer is asked to complete in order for an assessment to be made by an authorized insurer or a licensed insurance intermediary of the customer’s investment risk appetite, and to determine if a particular ILAS product and its underlying investment choices are suitable for the customer, before the licensed insurance intermediary makes a recommendation on an ILAS product (see further paragraph 6 below).

2.3 Unless otherwise specified, words and expressions used in this Guideline shall have the same meanings as given to them in the Ordinance.

3. Relevant Regulatory Documents and Status of this Guideline

3.1 This Guideline should be read, where appropriate, in conjunction with the relevant provisions of the Ordinance and all other relevant rules, codes, circulars and guidelines issued by the IA or other regulatory/professional bodies, including but not limited to the following:

- (a) Guideline on Classification of Class C – Linked Long Term Business (GL11) issued by the IA;
- (b) Guideline on Underwriting Class C Business (GL15) issued by the IA;
- (c) Guideline on Offering of Gifts (GL25) issued by the IA;
- (d) Guideline on Long Term Insurance Policy Replacement (GL27) issued by the IA;
- (e) Guideline on Benefit Illustrations for Long Term Insurance Policies (GL28) issued by the IA;
- (f) Guideline on Cooling-off Period (GL29) issued by the IA;
- (g) Guideline on Financial Needs Analysis (GL30) issued by the IA;
- (h) Code of Conduct for Licensed Insurance Agents issued by the IA;
- (i) Code of Conduct for Licensed Insurance Brokers issued by the IA;
- (j) All relevant rules, codes, circulars and guidelines relating to ILAS products administered or issued by the Hong Kong Monetary Authority (“HKMA”); and
- (k) All relevant rules, codes, circulars and guidelines relating to ILAS products administered or issued by the Securities and Futures Commission (“SFC”).

3.2 This Guideline does not have the force of law, in the sense that it is not subsidiary legislation, and should not be interpreted in a way that would override the provision of any law. A non-compliance with the provisions in this Guideline would not by itself render an authorized insurer or a licensed insurance intermediary liable to judicial or other proceedings. A non-compliance may, however, for example reflect on the IA’s view of the

continued fitness and properness of (i) the directors, controllers and key persons in relevant control functions of the authorized insurers to which this Guideline applies; and (ii) the licensed insurance intermediaries to which this Guideline applies and (in the case of licensed insurance agencies and licensed insurance broker companies) their directors, controllers and responsible officers. The IA may also take guidance from this Guideline in considering whether there has been an act or omission likely to be prejudicial to the interests of policy holders or potential policy holders (albeit the IA will always take account of the full context, facts and impact of any matter before it in this respect).

- 3.3 In assessing whether the minimum standards and practices in this Guideline have been duly followed, the IA will adopt a principle-based approach by considering whether the objectives of this Guideline are achieved. The IA may also take into account whether further guidance provided by the IA by way of circulars or other documents on the minimum standards and practices in this Guideline have been followed.

4. Fair Treatment of Customers in the Sale Process for ILAS Products

- 4.1 Authorized insurers and licensed insurance intermediaries should ensure that the sale process for ILAS products is fair to customers. In this regard, the suitability of an ILAS product (including its underlying investment choices) for a customer should be properly assessed with due regards to the customer's circumstances. An ILAS product should only be recommended if it is considered suitable to meet the customer's insurance, financial and investment needs. During the sale process of an ILAS product, the risks associated with the product, its key features and the fees and charges structure (including those of the underlying investment choices) need to be fully disclosed and explained to the customer, and the customer should be given adequate opportunity to consider these before deciding to purchase the product.
- 4.2 To achieve the objectives in paragraph 4.1 above, the sale process for an ILAS product should cover the following steps:
- (a) An adequate suitability assessment in relation to a prospective customer, covering the requirements in paragraphs 4.2(b) to (k) below should be carried out in order to assess whether, based on the customer's circumstances, objectives, needs and priorities, an ILAS product (including its underlying investment choices) is a suitable option.

- (b) The completion of a Financial Needs Analysis (“FNA”) in relation to the prospective customer is an imperative step which needs to be completed as part of the suitability assessment. Based on the information gathered in the FNA and any other relevant information provided, the licensed insurance intermediary should explore suitable insurance options for the customer.
- (c) If an ILAS product is considered as a potentially suitable option for the customer, the licensed insurance intermediary should assess the customer’s investment risk appetite. This should be done by means of completing a Risk Profile Questionnaire (“RPQ”) in relation to the customer.
- (d) If, based on the information obtained in the FNA and RPQ processes, and any other relevant information obtained, a particular ILAS product (including its underlying investment choices) is considered to be suitable for the customer, then it may be recommended.
- (e) If, after the ILAS policy has been issued, the customer subsequently applies to make a top-up investment to the policy, the FNA and RPQ processes should be completed. However, the FNA and RPQ processes are not required if the customer purchases a top-up investment from the same authorized insurer or via the same licensed insurance intermediary within 12 months from the completion of the previous FNA and RPQ processes (in relation to applications for base plan or top-up), unless there are material changes in the circumstances of the customer or the top-up investment would result in a mismatch.
- (f) During the sale process of an ILAS product, the customer should be properly apprised of the product features, particularly the fees and charges, including but not limited to surrender or withdrawal charges (if any), as well as the product and investment risks (as set out in paragraph 4.2(j) below) (including those of the underlying investment choices). Accordingly, the licensed insurance intermediary should disclose and explain to the customer, and provide the customer with information on the product (including information on the underlying investment choices), for example, product brochures, product key facts statement and illustration documents, and the customer should be given adequate opportunity to review them and ask questions. Authorized insurers should ensure that all such materials are approved by the SFC (if so required) and are up to date.

- (g) The customer should also be provided with an Important Facts Statement (“IFS”) in relation to the ILAS product being recommended, the content of which should include information such as the investment risk, liquidity risk and other risks associated with the product, the fees and charges structure for the product and the fact that the customer has a cooling-off period. These matters should be explained by the licensed insurance intermediary during the sale process before the customer signs the IFS / Applicant’s Declarations and the application for the product is submitted. The IFS / Applicant’s Declarations must be completed for base plan and top-up applications.
- (h) If a customer refuses to disclose requisite information during the above process(es), the licensed insurance intermediary should clearly explain to the customer that without such information the authorized insurer and licensed insurance intermediary would be unable to comply with the requirements contained in this Guideline, and consequently this would likely result in the authorized insurer rejecting the application. No ILAS products should be recommended to the customer if requisite information is not disclosed by the customer.
- (i) Where an ILAS product (including its underlying investment choices) has any unusual features (e.g. market value adjustment, leverage, investment choices based on hedge funds, or extensive use of derivatives other than for risk management purposes), licensed insurance intermediaries are required to take additional care when explaining these unusual features at the point-of-sale.
- (j) Licensed insurance intermediaries also have the duty to disclose and explain the risks associated with ILAS products (including those of the underlying investment choices), such as counterparty risk, credit risk, liquidity risk, foreign exchange risk, market risk, etc., to customers. They should also take all reasonable measures to satisfy themselves that customers fully understand and accept the features and risks associated with the ILAS products (including those of the underlying investment choices), and such understanding should be documented in writing, signed and dated by customers.
- (k) To re-affirm the customer’s understanding of the ILAS product (including those of the underlying investment choices) purchased, and also to re-affirm that the customer is fully aware of his/her rights and obligations under the ILAS product, the authorized insurer issuing the

product is required to make an audio-recorded post-sale confirmation call within 5 working days of the date of policy issue or conduct a point-of-sale audio recording for the customer to listen to at the end of the sale process for the base plans of ILAS products.

- 4.3 The indicative sale flow referencing the process described above is set out in the flowchart in the Appendix¹. Further details on the key stages in the process and their objectives are also set out in the following paragraphs and Appendix to this Guideline. Authorized insurers, licensed insurance agencies and licensed insurance broker companies are required to put in place an effective operational control mechanism and provide appropriate and regular training to licensed insurance intermediaries and staff, where appropriate, to ensure that the process as set out in this Guideline is duly completed.

5. The FNA Process

- 5.1 The objective of the FNA process is for an assessment of a customer's circumstances including needs, financial situation, ability and willingness to pay premiums, etc., to be made before a recommendation in respect of a suitable life insurance product (including an ILAS product) is made to the customer. Authorized insurers and licensed insurance intermediaries should use the FNA process as part of the sale process for an ILAS product to achieve this objective.
- 5.2 Where, in the FNA process the prospective customer indicates that one of the customer's objectives for seeking an insurance product is "investment", information must be collected during the FNA process about whether the customer is able and willing to make his/her own decision to choose and manage different investment choices available under an ILAS product before an ILAS product should be introduced or recommended to the customer.
- 5.3 The detailed requirements for the FNA process are set out in the Guideline on Financial Needs Analysis (GL30).

¹ The flowchart in this Guideline is an updated version of the flowchart in the Annex to GL15.

6. The RPQ Process

- 6.1 The objective of the RPQ process is for an assessment of a customer's investment risk appetite, and to determine if a particular ILAS product and its underlying investment choices are suitable for the customer, before making a recommendation. Authorized insurers and licensed insurance intermediaries should use the RPQ process as part of the sale process for an ILAS product to achieve this objective.
- 6.2 As a minimum, the RPQ should aim to ascertain, the customer's:
- (a) investment objectives;
 - (b) preferred investment horizon;
 - (c) risk tolerance;
 - (d) financial circumstances; and
 - (e) knowledge (including investment knowledge in derivatives) and experience (including experience in investment and the period of such experience).
- 6.3 Authorized insurers, licensed insurance agencies and licensed insurance broker companies may develop their own form of RPQ, subject to such RPQ conforming with the objectives, standards and practices in this Guideline.
- 6.4 A completed RPQ form must be signed and dated by the customer and the licensed insurance intermediary.

7. IFS, Applicant's Declarations and Remuneration Disclosure

- 7.1 The objective of an IFS is to set out important facts including the key product features and risks in relation to an ILAS product being recommended, for the customer's attention. The objective of the Applicant's Declarations is to provide a check-point to assist the authorized insurer and licensed insurance intermediary to focus the customer's attention on the suitability of the ILAS product for the customer and to confirm his/her understanding of the risks associated with it. A further objective of the IFS and Applicant's Declarations process is to provide disclosure of the licensed insurance intermediaries' remuneration to the customer. Authorized insurers and licensed insurance

intermediaries should use the IFS and Applicant's Declarations process as part of the sale process for an ILAS product to achieve these objectives.

- 7.2 It is for the authorized insurer of an ILAS product to create and produce the IFS form including the Applicant's Declarations for the product. The Applicant's Declarations should require the customer to declare that he/she has received, read and understood the following documents in relation to the product:
- (a) product brochure;
 - (b) product key facts statement;
 - (c) illustration document;
 - (d) investment choice brochure; and
 - (e) any other document as may be specified by the IA and other regulators from time to time.
- 7.3 The template issued by the IA from time to time by way of circular, for an IFS and Applicant's Declarations including the disclosure of licensed insurance intermediaries' remuneration, should be followed and should be adopted in terms of structure, groupings and signatures.
- 7.4 A completed IFS and Applicant's Declarations form must be signed and dated by the customer and the licensed insurance intermediary.
- 7.5 Authorized insurers, licensed insurance agencies and licensed insurance broker companies are required to put in place mechanisms to ensure the customer's understanding of the information provided during the sale process, including key product features and risks as well as his/her rights and obligations, as evidenced in the IFS/ Applicant's Declarations.
- 7.6 In addition to the disclosure of remuneration made in the IFS, authorized insurers and licensed insurance intermediaries should observe the following principles in handling requests/enquiries from customers on remuneration and formulate an approach to handle such requests/enquiries in accordance with such principles:
- (a) disclosure must be made and should not be refused;

- (b) the remuneration amount and methodology should be accurate, and not misleading to customers;
- (c) disclosure must be clear and given in such a way that it can easily be understood by average customers; and
- (d) a common approach should be taken for all products and customer groups.

8. Effective Controls and Procedures in relation to Suitability Checks and Product Disclosure

8.1 In assessing whether a particular ILAS product (including its underlying investment choices) sold is suitable for the customer and proper product disclosure has been made, authorized insurers, licensed insurance agencies and licensed insurance broker companies are required to establish effective controls and procedures to:

- (a) verify whether the key features of that ILAS product and the underlying investment choices chosen are considered suitable for the customer, including whether the premium amount and payment term are considered suitable for the customer based on the information disclosed;
- (b) verify whether the licensed insurance intermediary has taken due account of the reasons/considerations as set out by the customer in the "Statement of Purpose" paragraph of the IFS, together with all other relevant information;
- (c) verify whether the licensed insurance intermediary has properly disclosed and explained the key features and risks of the ILAS product (including its underlying investment choices) as well as the customer's rights and obligations during the sale process; and
- (d) handle appropriately any exceptions in accordance with the post-sale controls as set out in paragraph 9.

8.2 Licensed insurance intermediaries are required to verify and ensure that all available information obtained from customers are not contradictory. Authorized insurers are also required to verify all available information during their underwriting process and reject applications for ILAS products if any of

the requirements in this Guideline are not met. Where appropriate, authorized insurers should follow up via the licensed insurance intermediaries concerned, e.g. in case of mismatch.

- 8.3 ILAS products may have a common feature to allow customers to switch their investment choices and to place top-up investment after policy inception. Authorized insurers, licensed insurance agencies and licensed insurance broker companies should have effective controls in place to ensure customers are aware of the possible risks associated with switching investment choices or placing top-up investment after policy inception that may become inconsistent with their risk profile.

9. Post-Sale Controls

- 9.1 The objectives of post-sale controls is to reaffirm customers' understanding of the ILAS policy that they have purchased, and that they are fully aware of their rights and obligations under the ILAS policy. The requirements in this paragraph 9 supplement and provide further details on the post-sale control requirements in paragraph 12 of GL15.
- 9.2 Authorized insurers should send the following documents along with the issued policy to the customer upon the completion of the sale process:
- (a) copies of the signed IFS and Applicant's Declarations; and
 - (b) a notice (i) informing the customer that his/her original signed FNA and RPQ are available for inspection; and (ii) advising where and how the customer may access these documents.
- 9.3 Authorized insurers should conduct either post-sale calls or point-of-sale audio recordings for base plans of ILAS products sold via all distribution channels. For bancassurance channel, authorized insurers and licensed insurance intermediaries have the duty to observe the relevant requirements imposed by the HKMA, including the requirement for audio recordings of the sale of ILAS products.
- 9.4 During the post-sale calls or point-of-sale audio recordings which authorized insurers are required to conduct, authorized insurers should confirm the following with the customer:
- (a) the details in the suitability assessment as set out in both the FNA and

RPQ;

- (b) the details in the IFS and Applicant's Declarations; and
- (c) whether proper product disclosure and explanation has been made by the licensed insurance intermediary to the customer.

Authorized insurers should keep the relevant post-sale call recordings or point-of-sale audio recordings in accordance with the relevant provisions under the Personal Data (Privacy) Ordinance (Cap. 486) or any other requirements imposed by the Office of the Privacy Commissioner for Personal Data from time to time.

- 9.5 Authorized insurers should remind the customers of their rights to contact them if the customer disagrees with any of the matters communicated during the post-sale process and/or wishes to make any enquiries before the expiry of the cooling-off period. In the event of disagreement or an uncertain reply by a customer, the authorized insurer should follow-up either directly or through the relevant licensed insurance intermediary with the concerned customer. If such follow-up is made through the licensed insurance intermediary, then the licensed insurance intermediary should report back on the latest situation to the authorized insurer as soon as practicable after following-up.
- 9.6 Licensed insurance intermediaries should remind customers of the importance of post-sale calls and the cooling-off period and should not abet customers to evade post-sale control measures implemented by authorized insurers.

10. Certification of Copies of FNA and RPQ

- 10.1 Authorized insurers should retain the original signed FNA, RPQ and IFS/Applicant's Declarations for record purpose and provide such documents for the IA's inspection as soon as practicable upon request.
- 10.2 For business introduced by authorized institutions and licensed insurance brokers, authorized insurers may accept copies of the original signed FNA and RPQ provided that those documents are properly certified by the representatives of authorized institutions and licensed insurance brokers, who have no conflict of interest with the sale of the relevant ILAS policy.

11. Documentation and Record Keeping

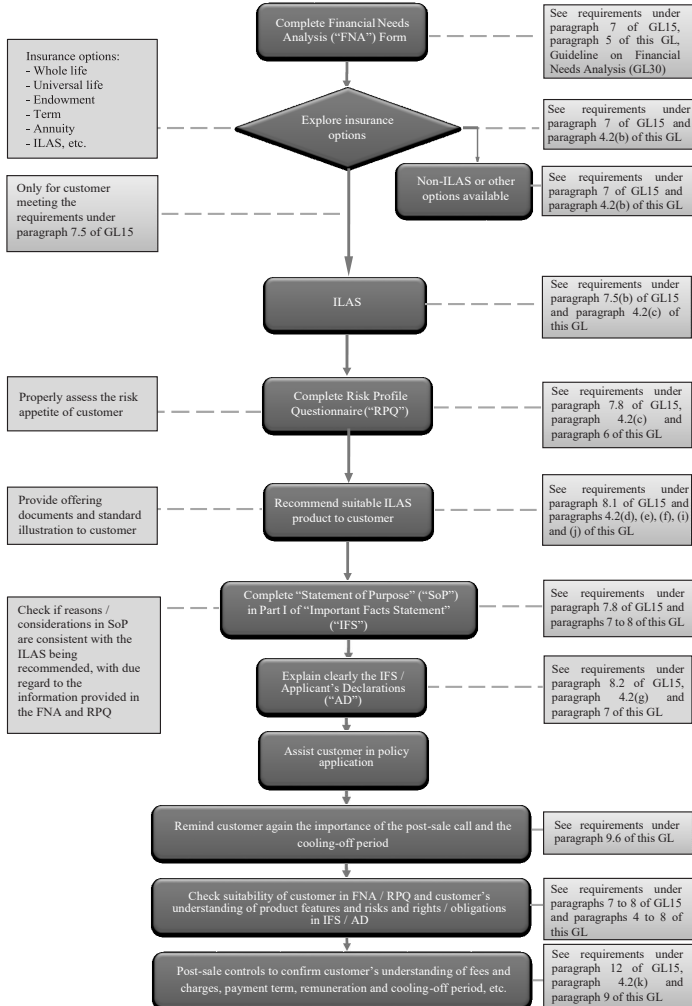
- 11.1 Authorized insurers, licensed insurance agencies and licensed insurance broker companies should put in place proper documentation systems for each of the processes/ requirements in this Guideline, where applicable. Apart from the policy documents, FNA, RPQ and the IFS/Applicant's Declarations, records relevant to the post-sale controls should also be maintained.
- 11.2 Authorized insurers, licensed insurance agencies and licensed insurance broker companies should provide the records for the inspection, review and investigation by the IA and other relevant regulatory bodies as soon as practicable upon request.

12. Commencement

- 12.1 This Guideline shall take effect from 23 September 2019 ("Effective Date").

September 2019

**INDICATIVE SALE FLOW OF
INVESTMENT-LINKED ASSURANCE SCHEME (“ILAS”)
PRODUCTS**



GL27

**GUIDELINE
ON
LONG TERM INSURANCE POLICY REPLACEMENT**

Insurance Authority

<u>Contents</u>		<u>Page</u>
1.	Introduction.....	1
2.	Interpretation.....	1
3.	Relevant Regulatory Requirements and Status of this Guideline.....	2
4.	Scope of Application.....	4
5.	Policy Replacement.....	5
6.	Important Facts Statement – Policy Replacement.....	7
7.	Internal Policy Replacements.....	8
8.	Complaints Monitoring.....	9
9.	Effective Controls and Procedures to be established by Authorized Insurers, Licensed Insurance Broker Companies and Licensed Insurance Agencies.....	9
10.	Record Keeping.....	10
11.	Commencement.....	10
12.	Transitional Provision.....	10
	Question Template - Policy Replacement	Appendix A
	Important Facts Statement - Policy Replacement	Appendix B

1. Introduction

- 1.1 The Insurance Authority (“IA”) issues this Guideline pursuant to section 133 of the Insurance Ordinance (Cap. 41) (“Ordinance”) and its principal function to regulate and supervise the insurance industry for the protection of existing and potential policy holders. This Guideline also takes account of the Insurance Core Principles, Standards, Guidance and Assessment Methodology (“ICP”) promulgated by the International Association of Insurance Supervisors, in particular ICP 19 which stipulates that the conduct of the business of insurance should ensure that customers are treated fairly.
- 1.2 Life insurance policies are long-term contracts of insurance, designed and intended to be in force over multiple years of a person’s life. The terms and conditions of a life insurance policy reflects this intention. A policy holder, having purchased a life insurance policy, may later consider purchasing another life insurance policy to replace (whether in whole or in part) the life insurance policy initially purchased. In these circumstances, the policy holder should be mindful of the disadvantages of making changes to the life insurance policy initially purchased (for example, surrender or withdrawal charges may be incurred). Accordingly, if a policy holder applies to purchase a new life insurance policy and combines this with replacing or making changes to a life insurance policy previously purchased, authorized insurers and licensed insurance intermediaries should ensure the policy holder is fully informed of the consequences of such replacement of changes, so that he/she can make a fully informed decision. The purpose of this Guideline is to address this issue.

2. Interpretation

- 2.1 In this Guideline, unless the context otherwise specifies:
 - (a) “Application date” in relation to a life insurance policy which is being purchased by a policy holder, means the date on which the policy holder applies to purchase the policy (i.e. the date on which the application form is signed by the policy holder).
 - (b) “Authorized institution” has the meaning assigned to it by section 2 of the Banking Ordinance (Cap. 155).

- (c) “Customer” bears the same meaning as policy holder or potential policy holder, as those terms are used in the Ordinance.
- (d) “Date of issue” in relation to a life insurance policy to which this Guideline applies (see paragraph 4.2), means the date on which the authorized insurer, having accepted an application for insurance by the policy holder, creates the document that is policy holder’s life insurance policy.
- (e) “Group policy” means a life insurance policy under which a group of employees of a company, partnership or sole proprietor, or members of an organization or other similar group of people, are insured.
- (f) “Life insurance policy”, means a contract of insurance which is classed as long term business as defined under the Ordinance.
- (g) “Policy loan” means a loan made by the authorized insurer to the policy holder under the terms and conditions of the life insurance policy issued to the policy holder by the insurer, including an automatic premium loan.
- (h) “Policy replacement” has the meaning assigned to it by paragraph 5.2 of this Guideline.
- (i) “Total cash value” in relation to a life insurance policy, means the aggregate of the guaranteed value and the non-guaranteed value payable to the policy holder under the terms and conditions of the policy, including the policy value, account value, cash value, cash coupon, dividends, bonuses, interest, etc. payable under the policy.

2.2 Unless otherwise specified, words and expressions used in this Guideline shall have the same meanings as given to them in the Ordinance.

3. Relevant Regulatory Requirements and Status of this Guideline

3.1 This Guideline should be read in conjunction with the relevant provisions of the Ordinance and all other relevant rules, codes, circulars, and guidelines issued by the IA or other regulatory bodies, including but not limited to the following:

- (a) Section 90(a) of the Ordinance which requires a licensed insurance

intermediary when carrying on a regulated activity to “*act honestly, fairly, in the best interests of the policy holder concerned or the potential policy holder concerned, and with integrity*”;

- (b) Section 90(d) of the Ordinance which requires a licensed insurance intermediary when carrying on a regulated activity to “*have regard to the particular circumstances of the policy holder or the potential policy holder that are necessary for ensuring that the regulated activity is appropriate to the policy holder or the potential policy holder.*”;
- (c) Guideline on Underwriting Class C Business (GL15) issued by the IA;
- (d) Guideline on Underwriting Long Term Insurance Business (other than Class C Business) (GL16) issued by the IA;
- (e) Guideline on Financial Needs Analysis (GL30) issued by the IA;
- (f) Guideline on Cooling-off Period (GL29) issued by the IA;
- (g) Code of Conduct for Licensed Insurance Agents issued by the IA;
- (h) Code of Conduct for Licensed Insurance Brokers issued by the IA; and
- (i) All relevant rules, codes, circulars and guidelines administered or issued by the Hong Kong Monetary Authority.

3.2 This Guideline does not have the force of law, in the sense that it is not subsidiary legislation, and should not be interpreted in a way that would override the provision of any law. A non-compliance with the provisions in this Guideline would not by itself render an authorized insurer or a licensed insurance intermediary liable to judicial or other proceedings. A non-compliance may, however, for example reflect on the IA’s view of the continued fitness and properness of (i) the directors, controllers and key persons in relevant control functions of the insurers to which this Guideline applies and (ii) the licensed insurance intermediaries to which this Guideline applies and (in the case of licensed insurance agencies and licensed insurance broker companies) their directors, controllers and responsible officers. The IA may also take guidance from this Guideline in considering whether there has been an act or omission likely to be prejudicial to the interest of policy holders or potential policy holders (albeit the IA will always take account of the full context, facts and impact of any matter before it in this respect).

4. Scope of Application

- 4.1 This Guideline applies to all authorized insurers carrying on long term business, and all licensed insurance intermediaries carrying on regulated activities in respect of long term business.
- 4.2 This Guideline applies in respect of any life insurance policy which a customer applies to purchase after the Effective Date of this Guideline unless any of the exceptions in paragraphs 4.3 or 4.4 apply.
- 4.3 This Guideline does not apply to:
- (a) the purchase of any life insurance policy which is a group policy;
 - (b) a life insurance policy which is sold in a manner which meets all of the conditions in paragraph 4.4 below; or
 - (c) any life insurance policies which an authorized insurer or a licensed insurance intermediary, as the case may be, has obtained the IA's prior written consent to exempt from the requirements of this Guideline (e.g. through the InsurTech Sandbox).
- 4.4 The conditions for the purposes of paragraph 4.3(b) above are:
- (a) the life insurance policy is sold to a customer directly by an authorized insurer, or by an authorized institution in its capacity as a licensed insurance agency of an authorized insurer;
 - (b) the life insurance policy is sold through a digital distribution channel (e.g. webpage or mobile app);
 - (c) the authorized insurer or authorized institution does not provide a recommendation to the customer before or during the point of sale; and
 - (d) in addition to complying with all existing product disclosure requirements, the authorized insurer or the authorized institution displays a prominent statement at the point of sale of the life insurance policy, warning the customer that if the customer is purchasing the life insurance policy to replace an existing life insurance policy, the customer should seek

professional advice to understand the associated risks and detrimental consequences of policy replacement.

5. Policy Replacement

- 5.1 In respect of the purchase of any life insurance policies to which this Guideline applies (see paragraph 4.2 above), the authorized insurer of the policy and the licensed insurance intermediary carrying on regulated activities in relation to the policy, should take all reasonable steps to ascertain whether the customer is purchasing the life insurance policy as a policy replacement.
- 5.2 For the purposes of paragraph 5.1 above, the purchase of a life insurance policy to which this Guideline applies, is a policy replacement if at the time of the application date for the new life insurance policy,
- (a) the customer has or had another life insurance policy (or other life insurance policies) (collectively “existing life insurance policy”);
 - (b) the policy holder(s) of the existing life insurance policy and the life insurance policy being purchased is (are) the same; and
 - (c) in order to fund the purchase of the new life insurance policy, the customer is using, or intends to use, some or all of the total cash value of the existing life insurance policy or any savings made or to be made as a result of reducing the premium payable under the existing life insurance policy, by means of the following:
 - (i) reducing the total cash value or sum insured of the existing life insurance policy, by the customer exercising (or having exercised) a right under the policy (e.g. withdrawal, surrender) or by automatic operation of the terms and conditions under the policy (e.g. lapse, reduced paid-up insurance, extended term insurance); or
 - (ii) by the customer taking out (or having taken out) a policy loan from the existing life insurance policy (whether at the customer’s request or by automatic operation of the policy terms and conditions); or
 - (iii) by the customer suspending premium payment or ceasing to pay

premium under the existing life insurance policy.

5.3 Notwithstanding paragraph 5.2 of this Guideline, the following transactions are not considered to be policy replacements:

- (a) where the new life insurance policy is being effected solely by reason of the existing life insurance policy being converted into the new life insurance policy under the provisions of the existing life insurance policy;
- (b) where the existing life insurance policy and the new life insurance policy are with the same authorized insurer and the new life insurance policy is being effected solely by reason of the existing life insurance policy being converted or migrated into the new life insurance policy under a conversion or migration program offered by the insurer, in which re-underwriting is not required;
- (c) where the only change made to the existing life insurance policy, relates to the coverage under a rider on the existing life insurance policy and no change is made to the life coverage of the basic plan of such policy; and
- (d) where the life insurance policy is purchased in place of an existing life insurance policy cancelled during its cooling-off period (as defined under the Guideline on Cooling-Off Period (GL29)).

5.4 The reasonable steps an authorized insurer or licensed insurance intermediary should take for the purposes of paragraph 5.1 above, include ensuring that sufficient enquiries are made of the customer to find out whether the customer is funding, or intends to fund the purchase of the new life insurance policy using the total cash value of the existing life insurance policy, or using savings from reducing the premium payable under the existing life insurance policy (see paragraph 5.2(c)). At minimum the enquiries to be made of the customer should include the questions set out in the template in Appendix A. These enquiries should be made during the sale process for new life insurance policies and may be incorporated as a separate section of a policy application form. Authorized insurers and licensed insurance intermediaries can modify the questions in **Appendix A**, use the information collected during the Financial Needs Analysis process (if applicable) and vary the questions to be asked regarding policy replacement depending on the particular circumstances of the customer, subject always to the objective of paragraph 5.1 being met.

- 5.5 A licensed insurance intermediary should assess and provide advice to the customer on whether the proposed purchase of the new life insurance policy is in the customer's best interests taking account of the reduction in the total cash value or sum insured under the existing life insurance policy and any other adverse consequences to the customer arising from the policy replacement. For this purpose, a licensed insurance intermediary should ask the customer to provide information on his/her existing life insurance policy(ies) so that such assessment may be provided. A licensed insurance intermediary must properly document the information provided by the customer during this assessment process. The factors considered, evaluation, the recommendation(s) made by the licensed insurance intermediary, and reason(s) for such recommendation(s) should also be documented as appropriate.

6. Important Facts Statement - Policy Replacement

- 6.1 In respect of every new life insurance policy to which this Guideline applies, which has been identified as a policy replacement or a potential policy replacement, the authorized insurer or licensed insurance intermediary should require an "Important Facts Statement - Policy Replacement" ("IFS-PR") as set out in Appendix B to be signed by the customer. The purpose of this is to make the customer aware of the disadvantages which may arise from the policy replacement, so that the customer can consider these disadvantages together with the information and advice given by the licensed insurance intermediary as referenced in paragraph 5.5 above and make an informed decision as to whether or not to proceed with purchasing the new life insurance policy.
- 6.2 The licensed insurance intermediary dealing with the application for the new life insurance policy which has been identified as a policy replacement should explain to the customer the implications of and risks associated with the policy replacement as identified in the IFS-PR and ask the customer to read the IFS-PR and consider the information contained in it.
- 6.3 The originals of the signed IFS-PR should be kept by the authorized insurer of the new life insurance policy which is the subject of the application. The authorized insurer must provide a copy of the IFS-PR to the customer on or before the date of issue of the new life insurance policy.

- 6.4 Authorized insurers should maintain complete records of the signed IFS-PRs dispatched to customers applying for new life insurance policies which have been identified as policy replacements. Such records should include the signed IFS-PRs, the dispatch date and mode of dispatch of the copies of the signed IFS-PRs to customers. Such records should be made available to the IA for inspection as soon as practicable upon request.

7. Internal Policy Replacements

- 7.1 An “internal policy replacement” means the purchase of a new life insurance policy which is considered to be a policy replacement (per paragraph 5.2 above), where the authorized insurer of the new life insurance policy is also the insurer of the customer’s existing life insurance policy.
- 7.2 Authorized insurers should implement processes for checking their internal records and databases to identify internal policy replacements by reference to the criteria listed in paragraph 5.2 above, as follows. Whenever an application is received for a new life insurance policy, an authorized insurer should check:
- (a) whether as at the application date, the customer has, or had at any time during the 12 months immediately prior to the application date, an existing life insurance policy with the authorized insurer; and
 - (b) if so, whether any of the matters in paragraph 5.2(c)(i), (ii) or (iii) above has taken place in respect of the existing life insurance policy during the 12 months immediately prior to the application date.

If the matters in paragraph 7.2(b) above are identified, the authorized insurer shall determine if it is necessary to contact the customer for the purpose of reaffirming his/her intention to fund the purchase of the new life insurance policy by making changes on the existing life insurance policy and informing him/her of the corresponding disadvantages.

- 7.3 Where a new life insurance policy is applied for by a customer who is identified by the authorized insurer as having an existing life insurance policy with the insurer (by reason of the checks carried out in paragraph 7.2 above), but this is not considered to be a policy replacement at the time of such application, the insurer should have processes in place to continue to monitor the existing life insurance

policy for any changes during the 12 months immediately following the application date for the new life insurance policy, which may indicate a policy replacement (per paragraphs 5.2(c)(i), (ii) and (iii)). If, as a result of such monitoring any of the matters in paragraphs 5.2(c)(i), (ii) or (iii) is identified, the authorized insurer shall determine if it is necessary to contact the customer for the purpose of reaffirming his/her intention to fund the purchase of the new life insurance policy by making changes on the existing life insurance policy and informing him/her of the corresponding disadvantages.

8. Complaints Monitoring

- 8.1 Authorized insurers should keep track of complaints in relation to policy replacement cases (and keep records of such complaints), and perform on-going monitoring on the complaint trends. If any abnormality is found, proper management action shall be taken to identify the root causes of the complaints and remedial action should be taken.

9. Effective controls and procedures to be established by authorized insurers, licensed insurance broker companies and licensed insurance agencies

- 9.1 Authorized insurers should develop internal controls to ensure their appointed licensed insurance individual agents and licensed insurance agencies comply with the requirements under this Guideline and that the applications for life insurance policies made through licensed insurance brokers also comply with the requirements of this Guideline. Such controls should cover:
- (a) controls to ensure reasonable steps are taken to ascertain whether a customer is purchasing a life insurance policy as a policy replacement, with appropriate records being maintained to evidence these steps (see section 5 above);
 - (b) controls to ensure that, where a policy replacement is identified, the customer is provided with an IFS-PR, signs the IFS-PR and is made aware of the disadvantages which may arise from the policy replacement, with appropriate records being maintained to evidence these (see section 6 above);
 - (c) controls to ensure there is an effective mechanism to identify and handle internal policy replacement cases (see section 7 above);

- (d) controls to identify possible cases where licensed insurance intermediaries have evaded the control measures or assisted or abetted customers to do so (e.g. the customer signs an IFS-PR form before being provided with the opportunity to read and understand the form), take remedial action if necessary including in respect of the licensed insurance intermediary concerned; and
 - (e) controls to identify policy replacement cases which are suspicious (e.g. licensed insurance intermediaries who have solicited a significant number of new life insurance policies for the insurer which are policy replacements), identify the root cause and take remedial action if necessary.
- 9.2 Licensed insurance broker companies and licensed insurance agencies are also required to develop and implement internal controls to ensure that they and their licensed technical representatives (broker) and licensed technical representatives (agent), as the case may be, comply with the requirements of this Guideline.

10. Record Keeping

- 10.1 Proper records should be maintained by authorized insurers, licensed insurance broker companies and licensed insurance agencies in respect of policy replacement matters including but not limited to the required documentation set out in this Guideline for inspection and review by the IA.

11. Commencement

- 11.1 This Guideline shall take effect from 23 September 2019 (“Effective Date”).

12. Transitional Provision

- 12.1 The IA recognizes that authorized insurers and licensed insurance intermediaries to which this Guideline applies may require time to update their documentation, controls and processes to align with the requirements in Sections 5 to 10 of this Guideline. A transitional period of 12 months from the Effective Date (i.e. from

23 September 2019 to 22 September 2020) will therefore apply in respect of the requirements in Sections 5 to 10 of this Guideline (“Transitional Period”). In respect of life insurance policies to which this Guideline applies, where the application date for the policy is during this Transitional Period, authorized insurers and licensed insurance intermediaries may either comply with the requirements in Sections 5 to 10 of this Guideline or the requirements issued by The Hong Kong Federation of Insurers in its document entitled “The Code of Practice for Life Insurance Replacement” (version effective from 1 February 2010), which is hereby adopted solely for the Transitional Period.

September 2019

Question Template – Policy Replacement

Name of Insurer of this application : _____

Application/Proposal Number : _____

Name of Applicant/Proposer : _____

In order to fund the purchase of your new life insurance policy, are you using, or do you intend to use some or all of the funds arising from your existing life insurance policy, or any savings made by reducing the premium payable under your existing life insurance policy? For example, such funds or savings may arise from:

- a) surrendering / partially surrendering your existing life insurance policy to obtain its surrender value
- b) taking out a policy loan (including automatic premium loan) from your existing life insurance policy
- c) withdrawing policy values from your existing life insurance policy (e.g. cash out dividends or redeem fund units etc.)
- d) lapsation of your existing life insurance policy (e.g. by non-payment of premium)
- e) exercising the right to a premium holiday under your existing life insurance policy

Yes Not yet decided No

Please check one appropriate box only

Warning: Please answer the above question carefully. Making changes on your existing life insurance policy may not be in your best interest. Your licensed insurance intermediary must explain to you the financial implications, insurability implications and claims eligibility implications of such changes. For this purpose, your licensed insurance intermediary may require certain information on your existing life insurance policy. You may need to approach the insurer of your existing life insurance policy to obtain accurate and up to date information on your existing policy.

If your answer is “Yes” or “Not yet decided”, your licensed insurance intermediary must explain the “Important Facts Statement – Policy Replacement” to you.

Signature of the Applicant/Proposer	Date (DD / MM / YYYY)
Signature of Licensed Insurance Intermediary	Date (DD / MM / YYYY)
Full name of Licensed Insurance Intermediary	Type of License and License No.

Important Facts Statement - Policy Replacement

This “Important Facts Statement – Policy Replacement” (“IFS-PR”) aims to help you understand the factors to be considered and the risks involved in replacing your existing life insurance policy with a new life insurance policy. Your licensed insurance intermediary should explain to you the implications and associated risks involved in replacing your existing life insurance policy.

If you do not understand any of the following paragraphs or the advice or information provided to you by your licensed insurance intermediary is different from the information in this IFS-PR, please **do not sign** this IFS-PR and **do not proceed** with replacing your existing Life Policy.

<p style="margin: 0;">SOME IMPORTANT FACTS YOU SHOULD KNOW</p> <p style="margin: 0;">Please read carefully before signing.</p> <p style="margin: 0;">Your insurance intermediary shall explain the content to you.</p>
Financial Implications
<ol style="list-style-type: none"> 1. <u>Informed Decision:</u> Life insurance policies usually lasts for a long period of time. If you surrender / take out policy loan from / withdraw policy values from / suspend or stop paying premium / reduce the premium payable on your existing life insurance policy, particularly during the early years of the policy period, you will usually suffer loss, including by way of having to pay charges. You should carefully compare your existing life insurance policy against the new life insurance policy you intend to purchase, and assess whether replacing your existing life insurance policy is in your best interests before you make a final decision. 2. <u>Difference between cash value from Surrender/ Lapse and total premium paid under your existing Life Policy</u> - The cash value that you may receive from surrendering your existing life insurance policy or allowing your existing life insurance policy to lapse, may be less than your total premium paid. This means that you may suffer a loss. Further, you may incur surrender charges if you surrender your existing life insurance policy or allow it to lapse. 3. <u>Policy Loan Interest</u> - The issuing insurer of your existing life insurance policy may charge you interest starting from the loan drawdown date. You should carefully review your regular statements to understand the opening and ending loan balance as well as the interest amount charged in the relevant period. Your existing life insurance policy may be terminated if the accumulated loan amount (and interest) exceeds a specified level of the account value / cash value of your existing life insurance policy. 4. <u>Withdrawal/ Partial Surrender Charges</u> - You may be subject to withdrawal charges or partial surrender charges within a prescribed period before the end of the policy term of your existing life insurance policy. For the new life insurance policy you intended to purchase, you may be subject to other early surrender / withdrawal charges within a prescribed period before the end of the term of the new life insurance policy. 5. <u>Policy Set-up Cost and Remuneration for licensed insurance intermediaries</u> – If you purchase a new life insurance policy, a substantial part of the initial premium may be used to pay for policy administration costs incurred by insurers and remuneration for the licensed insurance intermediaries. As a result, you may incur additional cost for replacing your existing life insurance policy.

6. **Higher Premium** - You may have to pay higher premium under the new life insurance policy in view of the difference in age, changes of health conditions, occupation, lifestyle / habit, and recreational activities (as compared with when you purchased your existing life insurance policy).
7. **Loss of Financial Benefit under the existing life insurance policy** - You may lose the financial benefit accumulated over the years (e.g. loyalty bonus or dividends) or to which you may be entitled (e.g. terminal bonus or dividends) under the existing life insurance policy.
8. **Financial Benefits under the New Life Insurance Policy Not Guaranteed** - The illustrated benefits of a new life insurance policy may NOT be guaranteed and whether they can be achieved depend on the performance of the issuing insurer of the new life insurance policy. If the new life insurance policy is an investment-linked assurance scheme policy, the illustrated benefits are based on assumed rates of return only.

Insurability Implications

9. **Changes in Coverage** - If you purchase a new life insurance policy and use it to replace an existing life insurance policy, some benefits, which are the policy features of the existing life insurance policy, may not be covered under the new life insurance policy due to changes in age, health conditions, occupation, lifestyle / habit or recreational activities. Also, riders / supplementary benefits under your existing life insurance policy may not be available under the new life insurance policy.

Claims Eligibility Implications

- 10 Benefits under the existing life insurance policy will no longer be payable to you if you surrender the policy or allow it to lapse. Besides, you may need to start a new waiting period in respect of certain benefits (e.g. medical, critical illness, suicide or incontestability) under the terms and conditions of the new life insurance policy.

Declaration

By the Insurance Intermediary

I declare that I have discussed and explained the implications and associated risks (including the above listed items) to the Applicant/Proposer regarding his/her decision to replace his/her existing life insurance policy with a new life insurance policy. I further declare that I have not made any inaccurate or misleading statements or comparisons, or withheld any information which may affect the decision of the Applicant/Proposer.

Signature of the
Licensed Insurance Intermediary

Full Name of the
Licensed Insurance Intermediary

Type of Licensed and Licensed No.

Date (DD/MM/YY)

By the Applicant/Proposer:

I understand the content of the above listed items.

Warning: you must read all items carefully and check that the licensed insurance intermediary has explained all the information on this IFS-PR before you sign this IFS-PR.

Signature of the
Applicant/Proposer

Full Name of the
Applicant/Proposer

Date (DD/MM/YYYY)

GL28

**GUIDELINE
ON
BENEFIT ILLUSTRATIONS FOR
LONG TERM INSURANCE POLICIES**

Insurance Authority

Contents

1. Introduction.....	3
2. Interpretation.....	3
3. Relevant Regulatory Requirements and Status of this Guideline	4
4. Scope.....	5
5. General Principles.....	6
6. Supplementary Illustration.....	7
7. Customization	8
8. Preparation and Timing of Provision of Benefit Illustration Documents	8
9. Duties of the Appointed Actuary	9
10. Proper Documentation	9
11. Commencement	9
12. Transitional Provision.....	10
Appendix I: Specific Requirements for Benefit Illustration Documents for ILAS Policies	I-1
1. Assumed Net Rates of Return.....	I-1
2. Fees and Charges	I-1
3. Disclosure	I-2
Standard Illustration for ILAS Policies.....	I-3
Appendix II: Specific Requirements for Benefit Illustration Documents for Participating Policies II-1	
1. Assumption Setting.....	II-1
2. Pessimistic and Optimistic Scenarios	II-1
3. Disclosure	II-2
Standard Illustration of Participating Policies	II-4
Appendix III: Specific Requirements for Benefit Illustration Documents for Universal Life (Non-Linked) Policies	III-1
1. Rate of Return.....	III-1
2. Fees and Charges	III-1
3. Pessimistic and Optimistic Scenarios	III-2
4. Disclosure	III-3
Standard Illustration for Universal Life (Non-Linked) Policies	III-5
Appendix IV: Specific Requirements for Benefit Illustration Documents for Non-Participating Policies	IV-1
1. Principle.....	IV-1
2. Disclosure	IV-1
Standard Illustration for Non-Participating Policies	IV-3
Annex: List of Admissible and Inadmissible Insurance Terminologies.....	Annex-1

1. Introduction

- 1.1 The Insurance Authority (“IA”) issues this Guideline pursuant to section 133 of the Insurance Ordinance (Cap. 41) (“Ordinance”), its principal function to regulate and supervise the insurance industry for the protection of existing and potential policy holders and its function to promote and encourage the adoption of proper standards of conduct, and sound and prudent business practices by authorized insurers. This Guideline also takes account of the Insurance Core Principles, Standards, Guidance and Assessment Methodology (“ICP”) promulgated by the International Association of Insurance Supervisors, in particular ICP 19 which stipulates that the conduct of the business of insurance should ensure that customers are treated fairly.
- 1.2 This Guideline aims to set out the standard requirements for benefit illustration documents to be provided to potential policy holders or existing policy holders to allow them to have adequate and clear information on the benefits of a life insurance policy.

2. Interpretation

- 2.1 In this Guideline, unless the context otherwise specifies:
 - (a) “Benefit illustration” means an illustration prepared and provided by the authorized insurer to the customer of a life insurance policy showing the projected surrender values and death benefits of the life insurance policy and containing, at minimum, the information shown in the Standard Illustrations in the Appendices to this Guideline;
 - (b) “Customer” bears the same meaning as policy holder or potential policy holder as those terms are used in the Ordinance;
 - (c) “Inforce re-projection illustrations” means benefit illustrations prepared and provided periodically by the authorized insurer to the policy holder of a life insurance policy during the policy period whilst the policy remains inforce, taking account of the performance of the policy to the date of the re-projection;
 - (d) “Life insurance policy” means a contract of insurance which is classed as long term business as defined under the Ordinance;

- (e) “Group policy” means a life insurance policy under which a group of employees of a company, partnership or sole proprietor, or members of an organization or other similar group of people, are insured; and
 - (f) “Supplementary illustration” means a benefit illustration prepared by an authorized insurer in relation to any optional product features, which the policy holder may elect from time to time under his/her life insurance policy (such as premium holiday, partial surrender, top-up, premium offset option, policy loan etc.).
- 2.2 Unless otherwise specified, words and expressions used in this Guideline shall have the same meanings as given to them in the Ordinance.

3. Relevant Regulatory Requirements and Status of this Guideline

- 3.1 This Guideline should be read in conjunction with the relevant provisions of the Ordinance and all other relevant rules, codes, circulars, and guidelines issued by the IA or other regulatory / professional bodies, including but not limited to the following:
- (a) Guideline on Underwriting Class C Business (GL15) issued by the IA;
 - (b) Guideline on Underwriting Long Term Insurance Business (other than Class C Business) (GL16) issued by the IA;
 - (c) Guideline on Sale of Investment-Linked Assurance Scheme (“ILAS”) Products (GL26) issued by the IA;
 - (d) Principles of Life Insurance Policy Illustrations (AGN 5) issued by the Actuarial Society of Hong Kong (“ASHK”);
 - (e) Best Estimate Assumptions (AGN 9) issued by the ASHK; and
 - (f) Code on Investment-Linked Assurance Schemes issued by the Securities and Futures Commission.
- 3.2 This Guideline does not have the force of law, in the sense that it is not subsidiary legislation, and should not be interpreted in a way that would override the provision of any law. A non-compliance with the provisions

in this Guideline would not by itself render an authorized insurer liable to judicial or other proceedings. A non-compliance may, however, for example reflect on the IA's view of the continued fitness and properness of the directors, controllers and key persons in relevant control functions of the authorized insurers to which this Guideline applies. The IA may also take guidance from this Guideline in considering whether there has been an act or omission likely to be prejudicial to the interests of policy holders or potential policy holders (albeit the IA will always take account of the context, facts and impact of any matter before it in this respect).

4. Scope

- 4.1 This Guideline applies to all authorized insurers carrying on long term business and sets out the minimum requirements for point-of-sale benefit illustrations, supplementary illustrations and inforce re-projection illustrations which are required to be provided by authorized insurers in respect of the life insurance policies to which this Guideline applies.
- 4.2 The requirements laid down in this Guideline must be followed for all life insurance policies with cash value (except group policies). For the avoidance of doubt, individual policies with refundable features are regarded as life insurance policies with cash value for the purposes of this Guideline.
- 4.3 The issuance of inforce re-projection illustrations is optional for the following types of life insurance policies:
 - (a) reduced paid-up insurance policies and extended term insurance policies, where future dividends and coupons from those policies are forfeited and the deposit account (if any) is accumulated at a guaranteed interest rate;
 - (b) non-participating policies; and
 - (c) Investment-linked Assurance Schemes ("ILAS") policies (i.e. contracts of insurance in Class C (Linked long term) of Part 2 of Schedule 1 to the Ordinance).

5. General Principles

- 5.1 In respect of life insurance policies to which this Guideline applies, authorized insurers should provide benefit illustrations at the point-of-sale containing, at minimum, the information in the Standard Illustrations set out in the Appendices to this Guideline (“Standard Illustrations”). Authorized insurers are responsible for ensuring that the information provided in their benefit illustration documents is adequate, accurate, clear and not misleading.
- 5.2 Unless otherwise stated in this Guideline, any supplementary illustrations and inforce re-projection illustrations should also follow the minimum requirements under the Standard Illustrations.
- 5.3 An authorized insurer should prepare an inforce re-projection illustration based on the current policy option chosen by the policy holder (e.g. withdrawal, premium offset, top-up, etc.), and the updated actuarial assumptions and the authorized insurer’s current view of the market outlook. The re-projection should start from the policy year in which the re-projection is performed, taking into account the policy’s updated inforce policy status (e.g. attained age, current sum assured, etc.). Relevant warnings of associated risks and explanatory notes should be suitably modified and presented.
- 5.4 The specific requirements for particular product types are covered in the relevant Appendices of this Guideline.
- 5.5 Authorized insurers should require customers to sign a declaration on the benefit illustration documents provided at the point-of-sale. It is optional for insurers to require customers to sign supplementary illustrations. Digital signatures or other similar signature verification technology may be accepted. For the avoidance of doubt, authorized insurers are not required to obtain the customer’s signature for inforce re-projection illustrations.
- 5.6 When life insurance policies are sold through non-face-to-face distribution channels, such as the internet or through telemarketing, customers are deemed to have signed the benefit illustration documents provided that:
 - (a) an explanation of the key product features of the relevant policy is provided to the customer during the selling process;

- (b) in the case of internet sales, as part of the online purchase path, the customer is required to (and does) confirm that he/she has reviewed the benefit illustration documents; and
- (c) the benefit illustration documents are sent to the customer together with the delivery of the policy to the customer.

6. Supplementary Illustration

- 6.1 Authorized insurers may provide supplementary illustrations in relation to optional product features, which the policy holder may elect from time to time (such as premium holiday, partial surrender, top-up, etc.). Certain column(s) of the supplementary illustration can be omitted if the same information is shown in the Standard Illustration.
- 6.2 For the avoidance of doubt, when a premium offset option is illustrated in a supplementary illustration, the requirements under paragraph 4.1(c) of Appendix 1 to GL16 issued by the IA must be met.
- 6.3 With regards to policy loans, an authorized insurer should provide a notice to the policy holder alerting the policy holder of lapsation risk arising as a result of the amount of the policy loan exceeding the account/surrender value, and (save in the case of ILAS policies) the expected timeline (in years) leading to policy lapsation based on the current assumptions for the policy loan (“Alert Notice”). The Alert Notice should be provided in the following situations:
 - (a) when a supplementary illustration on a basic plan with a policy loan is provided to the policy holder at the point-of-sale;
 - (b) when the policy holder applies for a policy loan;
 - (c) as soon as possible, after an automatic policy loan is first drawn down; and
 - (d) when issuing regular anniversary statements in relation to a policy in respect of which a policy loan has been drawn down.

In addition, an authorized insurer should provide a re-projection of the policy loan amount upon request with a clear indication that the interest rate on the policy loan will be amended from time to time depending upon

market conditions. A policy holder should be informed of his/her right to request for such re-projection when the Alert Notice is provided.

- 6.4 While the provision of benefit illustrations for riders is optional, where authorized insurers opt to provide benefit illustrations for riders at the point-of-sale or as inforce re-projection illustrations, at a minimum an illustration on the basic plan must be provided to the policy holder with a separate supplementary illustration combining the basic plan and the rider.

7. Customization

- 7.1 Unless otherwise stated, authorized insurers may customize their benefit illustration documents to exclude information not applicable to the product or not relevant to customers and may include additional information provided that such additional information is not misleading and does not distract customers from the information disclosed in the Standard Illustration.
- 7.2 Any additional information provided in addition to the minimum requirements of the Standard Illustration must be relevant and of value to customers.
- 7.3 Authorized insurers must follow the format of the Standard Illustration so that, and without limitation, the “total premiums paid” column is shown before the benefit payment columns, and the surrender values are shown before the death benefits.
- 7.4 Authorized insurers should not highlight any figures (e.g. in bold, underlined or in any colour or font size which is different from the general text in the benefit illustration documents) which are not guaranteed.

8. Preparation and Timing of Provision of Benefit Illustration Documents

- 8.1 The timing of the provision of benefit illustration documents is as follows:
 - (a) in relation to benefit illustration documents provided at the point-of-sale, these should be provided to the potential policy holder for review and signature prior to the potential policy holder signing the application form (save where paragraph 5.6 above applies); and

- (b) enforce re-projection illustrations should be provided to the policy holder at least on an annual basis after policy issuance (for the avoidance of doubt, this does not apply in relation to policies where the provision of re-projection illustrations is optional – see paragraph 4.3 above).
- 8.2 Authorized insurers are required to provide illustrations reflecting the particulars of customers (rather than using a specimen illustration for all customers). The particulars of customers should include (but are not limited to) age, gender, or smoking habit (if applicable).
- 8.3 Benefit illustration documents should be in the same language(s) as used by authorized insurers in other pre-sale literatures. English or Chinese versions of the benefit illustration documents should be made available to customers upon request. Authorized insurers are responsible for the consistency of contents among all sales materials. Benefit illustration documents must be legible in the context of font size, format and layout.

9. Duties of the Appointed Actuary

- 9.1 The appointed actuary of an authorized insurer (“Appointed Actuary”) is responsible for the accuracy of the calculations.

10. Proper Documentation

- 10.1 Authorized insurers are required to maintain proper records in respect of benefit illustration documents provided to customers and all cases of complaints or disputes arising from matters relating to such benefit illustration documents. Authorized insurers are required to provide these records to the IA as soon as is practicable upon request.

11. Commencement

- 11.1 This Guideline shall take effect from 23 September 2019 (“Effective Date”).

12. Transitional Provision

- 12.1 The IA recognizes that authorized insurers to which this Guideline applies may require time to update their documentation, controls and processes to align with the requirements in this Guideline. A transitional period of 12 months from the Effective Date (i.e. from 23 September 2019 to 22 September 2020) will therefore apply in respect of certain requirements of this Guideline (“Transitional Period”). The Transitional Period applies in respect of life insurance policies issued prior to the end of the Transitional Period. During this Transitional Period, authorized insurers shall comply with the provisions in paragraphs 4 to 10 of this Guideline and its Appendices unless either an alternative requirement is identified in the table below or a waiver from the requirement is indicated in the table below. If an alternative requirement is identified in the table below, during the Transitional Period the alternative requirement may be adopted in place of the stated requirement in this Guideline. If a waiver is indicated in the table below, the requirement in this Guideline in respect of which the waiver applies shall not begin to apply until the end of the Transitional Period, although early adoption by the authorized insurer is encouraged. As of 23 September 2020, authorized insurers must comply with all requirements in paragraphs 4 to 10 of this Guideline and its Appendices, in relation to all new policies issued on or after 23 September 2020 as well as existing policies (which are within the scope of this Guideline).

Topics	Provisions in this Guideline	Alternative Requirements
General Principles	Paragraphs 5.1 to 5.5	During the Transitional Period, authorized insurers may continue to use the benefit illustrations they used immediately prior to the Effective Date, provided such illustrations (prior to the Effective Date) complied with and (following the Effective Date) continue to comply with the requirements in the following documents issued by the Hong Kong Federation of Insurers (“HKFI”) which are hereby adopted for the purposes of the Transitional Period:
Supplementary Illustration	Paragraph 6	
Customization	Paragraph 7	
Preparation and Timing of Provision of Benefit Illustration Documents	Paragraph 8	
Benefit Illustration Documents for ILAS Policies	Appendix I	

Topics	Provisions in this Guideline	Alternative Requirements
Benefit Illustration Documents for Participating Policies	Appendix II	<ul style="list-style-type: none"> • HKFI's Guidance Note on ILAS Illustration Document (effective 1 January 2015); • HKFI's Guidance Note on Illustration Document and Standard Illustration for Participating Policies (effective 1 January 2017 for new and existing policies of current products and 1 April 2016 for new products); • HKFI's Guidance Note on Illustration Document and Standard Illustration for Universal Life (Non-Linked) Policies (effective 1 January 2017 for new and existing policies of current products and 1 April 2016 for new products); and • Questions and Answers on 'Guidance Note on Illustration Document for Participating Policies' and Guidance Note on Illustration Document for Universal Life (Non-Linked) Policies (effective 1 January 2017 for new and existing policies of current products and 1 April 2016 for new products).
Benefit Illustration Documents for Universal Life (Non-Linked) Policies	Appendix III	
Requirements in relation to policies sold through non-face-to-face	Paragraph 5.6	The requirements in this Guideline as they apply to benefit illustration documents in relation to policies sold through non-face-to-face distribution channels are waived until the end of

Topics	Provisions in this Guideline	Alternative Requirements
distribution channels		the Transitional Period. In relation to illustrations provided (if any) for these policies during the Transitional Period, insurers should continue to adopt the practices they were using immediately before the Effective Date of this Guideline, ensure that such illustrations are adequate, accurate, clear and not misleading, and treat customers fairly. Early adoption of the requirements in this Guideline prior to the end of the Transitional Period is encouraged.
Benefit Illustration Documents for Non-Participating Policies	Appendix IV	The requirements in this Guideline as they apply to benefit illustration documents in relation to non-participating policies are waived until the end of the Transitional Period. In relation to illustrations provided (if any) for these policies during the Transitional Period, insurers should continue to adopt the practices they were using immediately before the Effective Date of this Guideline, ensure that such illustrations are adequate, accurate, clear and not misleading, and treat customers fairly. Early adoption of the requirements in this Guideline prior to the end of the Transitional Period is encouraged.

September 2019

Appendix I: Specific Requirements for Benefit Illustration Documents for ILAS Policies

1. Assumed Net Rates of Return

- 1.1 Authorized insurers may choose one of the two options below to illustrate the assumed net rates of return:
 - (a) Four assumed net annual rates of return for illustration, 0%, 3%, 6% and 9% with separate tables showing the corresponding surrender value and death benefit respectively; and
 - (b) Three assumed net annual rates of return for illustration, 0%, 3% and 6% in the same table showing the corresponding surrender value and death benefit.
- 1.2 For both of the above options, aside the illustration of 0% assumed net annual rate of return, all other rates of return (i.e. 3%, 6% and 9%) are maximum rates that authorized insurers can adopt. Authorized insurers may choose to illustrate assumed net annual rates of return using lower rates of return, e.g. 0%, 2%, 5% and 7%.

2. Fees and Charges

- 2.1 The illustration is prepared to reflect all policy level fees and charges but not fund management charges. Fund management charges are defined as solely the fees and charges levied by fund managers.
- 2.2 Any fees and charges applied by authorized insurers in the form of fund management charges should be reflected through the numerical illustration regardless of whether those fund management charges are deducted through unit deduction or are reflected through their unit price calculation (e.g. “mirror fund” is involved). For example, if there is a 1% fund management charge accruing to the authorized insurer and a 1.5% fund management charge accruing to the fund house, the numerical illustration will reflect the 1% charge mentioned above while the 1.5% fund management charge accruing to the fund house will be mentioned in the notes to the illustration.

3. Disclosure

- 3.1 Authorized insurers may choose to show account value under each scenario before the benefit payment columns. If there is insufficient space, authorized insurers may take away the column with assumed net rate of return at 9% p.a., but not the others.
- 3.2 The projected surrender values and death benefits should be shown as at the end of each of the first five years of the policy, and at least for every five-year interval thereafter until maturity or the end of policy whichever is applicable, after deducting all relevant fees and charges as described in paragraph 2 of Appendix 1 to this Guideline. The number of policy years should not be illustrated higher than the customer's age at one-hundred (100) or the maturity of the policy, whichever is applicable. Besides, the last few rows should be illustrated by "at age 90", "at age 95" and "at age 100" to make it easier for customers to understand.
- 3.3 The notes to illustration should include reference to the fact that the fund management charges levied by the fund houses are not included in the illustration and, hence, a higher rate of return will be required to pay the fund management charges levied and achieve the rate of return shown in the illustration (which is net of the fund management charges levied).
- 3.4 A clear statement should be shown prominently in the benefit illustration documents to remind the customer of the situation where the policy may be terminated due to zero account value in a low investment yield scenario. This situation is only applicable to the scenarios that the projected account value will become zero before the end of the illustration period.
- 3.5 A warning statement should be shown prominently in the benefit illustration documents to alert the customers that early surrender or early premium discontinuance may result in significant loss.

Standard Illustration for ILAS Policies

X Y Z LIFE ASSURANCE COMPANY LIMITED

IMPORTANT:
THIS IS A SUMMARY ILLUSTRATION OF THE SURRENDER VALUES AND DEATH BENEFITS OF [NAME OF PRODUCT]. IT IS INTENDED TO SHOW THE IMPACT OF FEES AND CHARGES ON SURRENDER VALUES AND DEATH BENEFITS BASED ON THE ASSUMPTIONS STATED BELOW AND IN NO WAY AFFECTS THE TERMS OF CONDITIONS STATED IN THE POLICY DOCUMENT.

THE ASSUMED RATES OF RETURN USED BELOW ARE FOR ILLUSTRATIVE PURPOSES. THEY ARE NEITHER GUARANTEED NOR BASED ON PAST PERFORMANCE. THE ACTUAL RATES OF RETURN MAY BE DIFFERENT!

Proposal Summary for ABC product

1. Name of Life Insured:	Age :	Sex :	Smoker / Non Smoker
--------------------------	-------	-------	---------------------

2. Benefit Summary

Policy Currency:

Benefit Description	[Initial] Sum Assured ¹	[Initial] [M/Q/SA/A] Premium ²	Premium Payment Term ³	Benefit Term
Basic Plan				

Total [Initial] [M/Q/SA/A] Premium:

=====

[Notes for insurers:

¹ Where the sum assured varies, the initial sum assured at the policy commencement has to be stated. "N.A." could be stated if sum assured is not applicable.

² Where the premium varies over the premium payment term, the initial premium at the policy commencement has to be stated. The monthly, quarterly, semi-annually or annually premium actually paid by the policy holder is to be stated.

³ In case of single premium, this column should state 'Single Premium' or '1' (to denote the premium payment term has only 1 premium payment.)

First Option: with assumed net rate of return of 0%, 3%, 6% and 9% p.a.

3a. Basic Plan – Illustration Summary of Surrender Values

Projected Surrender Values					
End of Policy Year	Total Premiums Paid	Assuming Net Rate of Return of 0% p.a.*	Assuming Net Rate of Return of [3%] p.a.*	Assuming Net Rate of Return of [6%] p.a.*	Assuming Net Rate of Return of [9%] p.a.*
1	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999
2					
3					
4					
5					
10					
15					
....					
At age 90					
At age 95					
At age 100					

3b. Basic Plan – Illustration Summary of Death Benefits

Projected Death Benefits					
End of Policy Year	Total Premiums Paid	Assuming Net Rate of Return of 0% p.a.*	Assuming Net Rate of Return of [3%] p.a.*	Assuming Net Rate of Return of [6%] p.a.*	Assuming Net Rate of Return of [9%] p.a.*
1	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999
2					
3					
4					
5					
10					
15					
....					
At age 90					
At age 95					
At age 100					

Second Option: with assumed net rate of return of 0%, 3% and 6% p.a.

3. Basic Plan – Illustration Summary

Projected Surrender Values and Death Benefits							
End of Policy Year	Total Premiums Paid	Assuming Net Rate of Return of 0% p.a.*		Assuming Net Rate of Return of [3%] p.a.*		Assuming Net Rate of Return of [6%] p.a.*	
		Surrender Value	Death Benefit	Surrender Value	Death Benefit	Surrender Value	Death Benefit
1	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999
2							
3							
4							
5							
10							
15							
...							
At age 90							
At age 95							
At age 100							

4. Explanatory Notes

* The Surrender Values and Death Benefits shown in the above illustration are calculated based on the net rates of return. However, the net rates of return are net of any underlying/ reference fund charges levied by fund houses which vary with different underlying/ reference funds. Assuming the underlying/ reference fund charges are [1.50%] p.a., the gross rates of return on the underlying assets of the underlying/ reference funds used in this illustration are therefore [First Option: [1.50%] p.a., [4.50%] p.a., [7.50%] p.a. and [10.50%] p.a. / Second Option: [1.50%] p.a., [4.50%] p.a. and [7.50%] p.a.] respectively. For details of underlying/ reference fund charges, please refer to the offering documents of the underlying/ reference funds. Please note that this illustration might not be relevant to the actual rates of return, which depend on your choice of investment options. Please consult your advisor for further details. If you select any investment options linked to a money market fund or a fixed income fund, the above returns in the growth scenarios would be considered higher in many cases and unlikely to be achieved should low interest rate environment persists. You are strongly encouraged to consult your financial advisor who could provide further information on these underlying/ reference funds - both for your initial and subsequent investment option selections.

[Under the assumed net rate of return at 0% [and b%] p.a., your policy will remain in force up to an attained age of x [and y] of the individual insured respectively. The policy will be terminated afterwards. Your policy may also be terminated under other adverse investment scenarios. If the actual investment return is below the above assumed net rate of return, the policy may be terminated earlier than above attained age(s). You could lose all your premiums paid and benefits accrued if any condition of automatic early termination is triggered.]

Warning

- You should only invest in this product if you intend to pay the premium for the whole of your chosen premium payment term.
- Should you terminate this policy early or cease paying premiums early, you may suffer a significant loss.
- Your policy may be terminated if the account value is insufficient to pay the fees and charges.

Declaration

I confirm having read and understood the information provided in this illustration and received the principal brochure.

Name of Applicant: _____ **Signature:** _____ **Date:** _____

Appendix II: Specific Requirements for Benefit Illustration Documents for Participating Policies

1. Assumption Setting

- 1.1 In setting the best estimate assumptions for the base scenario, the Appointed Actuary should have regard to AGN 9 on Best Estimate Assumptions issued by ASHK, in particular Appendix A, which provides guidance and consideration covering benefit illustration assumptions.
- 1.2 Authorized insurers are allowed to illustrate benefit values with investment return not higher than the rate determined under best estimation.

2. Pessimistic and Optimistic Scenarios

- 2.1 As required under GL16 issued by the IA, additional high and low return scenarios must be provided in the benefit illustration to show the variability of the ultimate results. A wider range of scenarios is expected for investment strategy with higher volatility. For consistency purposes, the terms “Pessimistic Scenario” and “Optimistic Scenario” must be used. The underlying change in investment returns and accumulation interest rate (if applicable) in these scenarios are required to be disclosed in the explanation notes underneath.
- 2.2 Authorized insurers are required to adopt the twenty-fifth (25th) and seventy-fifth (75th) percentiles of the investment returns in the projections as pessimistic and optimistic scenarios (except otherwise with the written consent of the IA after an authorized insurer has demonstrated to the satisfaction of the IA that it has practical difficulties for so doing) while keeping other assumptions (except dividend/coupon accumulation interest rates, if applicable) unchanged. Authorized insurers could adopt a return rate lower than 25th percentile as the pessimistic scenario but cannot adopt a return rate higher than 75th percentile as the optimistic scenario.

3. Disclosure

- 3.1 The insurance terminology in the benefit illustration documents should be consistent with other product documents (e.g. product brochure, policy provisions, etc.) using the admissible insurance terminology stated in Part I of the **Annex**. In case where an authorized insurer has a need to use its own terminology, the IA will consider granting written consent on an individual case basis depending on the justifications and whether the terminology is considered to be or likely to be misleading or not. For the avoidance of doubt, a list of inadmissible terminology which is considered to be misleading has shown in Part II of the **Annex** for attention.
- 3.2 For inforce re-projection illustration where the insurance terminologies differ to those in other documents for policies issued prior to the adoption of GL16 issued by the IA, a glossary with mapping of existing terminologies to admissible terminologies should be provided to policy holders.
- 3.3 Authorized insurers may choose to present the figures in separate tables showing surrender values before death benefits. The “total premiums paid” column must be shown in each table. For the requirements under paragraph 2 of Appendix II, pessimistic and optimistic scenarios are required to be shown on the same page. In case where an authorized insurer has a need to present on separate pages for pessimistic and optimistic scenarios, the IA will consider granting written consent on an individual case basis depending on the justifications and whether the presentation is considered to be or likely to be misleading or not.
- 3.4 Illustration of pessimistic and optimistic scenarios for supplementary illustration and inforce re-projection illustration is optional. If authorized insurers choose to show variation of illustration against baseline scenario, at a minimum, pessimistic scenario has to be shown.
- 3.5 Only the figures calculated as at the “end of policy year” should be shown. Illustrations of benefits are to be provided for the years:
- (a) Stated for not less than 30 years (with at least a 5-year interval after policy year 5), or the benefit term if shorter; and
 - (b) At age 65, or on the maturity of the policy if earlier; and
 - (c) At age 100, or on the maturity of the policy if earlier; and

(d) On the maturity of the policy.

Standard Illustration of Participating Policies

X Y Z LIFE ASSURANCE COMPANY LIMITED

IMPORTANT:
THIS IS A SUMMARY ILLUSTRATION OF THE PROJECTED SURRENDER VALUES AND DEATH BENEFITS OF YOUR POLICY. IT IS INTENDED TO SHOW THE PROPORTION OF ANY NON-GUARANTEED ELEMENTS AND THE IMPACT OF CHANGE OF SUCH ELEMENTS UNDER SPECIFIED SCENARIOS. IN NO WAY SHOULD IT AFFECT THE TERMS AND CONDITIONS STATED IN THE POLICY DOCUMENT.

Proposal Summary for ABC product

1. Name of Life Insured:	Age :	Sex :	Smoker / Non Smoker
--------------------------	-------	-------	---------------------

2. Benefit Summary

Policy Currency:

Benefit Description	[Initial] Sum Assured / Protection Amount ¹	[Initial] [M/Q/SA/A] Premium ²	Premium Payment Term ³	Benefit Term
Basic Plan Supplementary Benefits e.g. Accidental Death Benefit Double Indemnity Hospital Income				

Total [Initial] [M/Q/SA/A] Premium:

=====

[Notes for insurers:

¹ The protection amount could be a sum assured or the value of a regular payment as in the case of hospital income riders attaching to the policy. Where the sum assured varies, the initial sum assured at the policy commencement has to be stated. "N.A." could be stated if sum assured is not applicable.

² Where the premium varies over the premium payment term, the initial premium at the policy commencement has to be stated. The monthly, quarterly, semi-annual or annual premium actually paid by the policy holder is to be stated.

³ In case of single premium, this column should state 'Single Premium' or '1' (to denote the premium payment term has only 1 premium payment).]

3. Basic Plan – Illustration Summary

End of Policy Year	Total Premiums Paid	SURRENDER VALUE				DEATH BENEFIT			
		Guaranteed	Non-Guaranteed		Total	Guaranteed	Non-Guaranteed		Total
			Accumulated Dividends and Interest	Terminal Dividend			Accumulated Dividends and Interest	Terminal Dividend	
1	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999
2									
3									
4									
5									
10									
15									
20									
25									
30									
At age 65 (5-year interval)									
At Age 100									

Explanation on above illustration:
Please refer to the Explanation Notes Section.

X Y Z LIFE ASSURANCE COMPANY LIMITED

The table below illustrates the impact on Surrender Values under Pessimistic and Optimistic Scenarios. The projected benefits under the two scenarios are calculated assuming the investment returns are lower and higher than the company's current assumed investment return respectively; while other factors, such as claims experience, expense factors and persistency factors, affecting these values are assumed to remain unchanged. The two scenarios do not represent lower and upper bounds for the actual investment return; the actual amount of non-guaranteed benefits payable may be higher or lower than those illustrated. They only illustrate, for reference purposes, the projected variation of return of the company based on the investment policies and objectives adopted for this policy.

4. Basic Plan – Surrender Values – Illustration Under Different Investment Return

End of Policy Year	Total Premiums Paid	SURRENDER VALUE						
		Guaranteed	Pessimistic Scenario			Optimistic Scenario		
			Non-Guaranteed		Total	Non-Guaranteed		Total
			Accumulated Dividends and Interest	Terminal Dividend		Accumulated Dividends and Interest	Terminal Dividend	
1	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	
2								
3								
4								
5								
10								
15								
20								
25								
30								
At age 65 (5-year interval)								
At age 100								

Explanation on above illustration:
Please refer to the Explanation Notes Section.

X Y Z LIFE ASSURANCE COMPANY LIMITED

The table below illustrates the impact on Death Benefits under Pessimistic and Optimistic Scenarios. The projected benefits under the two scenarios are calculated assuming the investment returns are lower and higher than the company's current assumed investment return respectively; while other factors, such as claims experience, expense factors and persistency factors, affecting these values are assumed to remain unchanged. The two scenarios do not represent lower and upper bounds for the actual investment return; the actual amount of non-guaranteed benefits payable may be higher or lower than those illustrated. They only illustrate, for reference purposes, the projected variation of return of the company based on the investment policies and objectives adopted for this policy.

5. Basic Plan – Death Benefits – Illustration Under Different Investment Return

End of Policy Year	Total Premiums Paid	DEATH BENEFIT						
		Guaranteed	Pessimistic Scenario			Optimistic Scenario		
			Non-Guaranteed		Total	Non-Guaranteed		Total
			Accumulated Dividends and Interest	Terminal Dividend		Accumulated Dividends and Interest	Terminal Dividend	
1	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999
2								
3								
4								
5								
10								
15								
20								
25								
30								
At age 65 (5-year interval)								
At age 100								

Explanation on above illustration:
Please refer to the Explanation Notes Section.

6. Explanation Notes

- (i) Sections 3, 4 and 5 are only summary illustrations of the major benefits of your basic plan excluding any supplementary benefits as shown in Section 2 (if applicable) and assume that all premiums are paid in full when due. You should refer to your licensed insurance intermediary or the company for more information or, if appropriate, a more detailed proposal.
- [If applicable]*
- (ii) The amount of total premium(s) may differ slightly from the total of the premiums payable in the policy due to rounding differences.
- [Only applicable to reversionary bonus plans]*
- (iii) The face value of any reversionary bonus and terminal bonus will be paid when the company is paying the Death Benefit, whereas the cash value of these bonuses will be paid when the policy is surrendered in whole or in part or terminated (other than due to the death of the Insured). The cash value of these bonuses may not be equal to the face value of the bonuses.
- [Only applicable to reversionary bonus plans]*
- (iv) The face value of reversionary bonus is guaranteed once declared while the cash value of reversionary bonus is not guaranteed / [The face value and cash value of reversionary bonus are guaranteed once declared.]
- (v) The projected non-guaranteed benefits included in Section 3 are based on the company's dividend/bonus scales determined under current assumed investment return and are not guaranteed. The actual amount payable may change from time to time with the values being higher or lower than those illustrated. As another example, the possible potential impact of a change in the company's current assumed investment return on the Total Surrender Value and the Total Death Benefit are illustrated in Sections 4 and 5. Under certain circumstances, the non-guaranteed benefits may be **zero**.
- (vi) In Sections 4 and 5, benefits under Pessimistic Scenario are based on a decrease of about x% p.a. whereas benefits under Optimistic Scenario are based on an increase of about y% p.a. in comparing with the current assumed investment return.
- (vii) As illustrated in Sections 3, 4 and 5, you can leave the projected dividends and other cash payments with the company for interest accumulation at an interest rate which is not guaranteed. The interest rate used by the Company for interest accumulation in Section 3 is A % pa. The actual interest rate may change from time to time with rate higher or lower than A %. In accordance with the change in the investment return under Pessimistic and Optimistic Scenarios in Sections 4 and 5 as mentioned in note (v), the accumulation interest rate of B % and C % is used respectively. These rates are also not guaranteed. You may cash all or part of the amount of projected dividends and other cash payments without affecting the protection amount of Section 2 but the total values shown above will be reduced accordingly.
- (viii) When reviewing the values shown in the illustrations in Sections 3, 4 and 5, please note that the cost of living in the future is likely to be higher than it is today due to inflation.

7. Dividend / Bonus History

[Website address that shows dividend / bonus history]

You may browse the above website to understand the company's dividend / bonus history for reference purposes.

Warning

- You should only apply for this product if you intend to pay the premium for the whole of the premium payment term.
- Should you terminate this policy early or cease paying premiums early, you may suffer a significant loss.

Declaration

I confirm having read and understood the information contained in this summary of illustrated benefits, and received the product brochure and the information regarding the relevant dividend/bonus history (if applicable).

Name of Applicant : _____ Signature : _____ Date : _____

Appendix III: Specific Requirements for Benefit Illustration Documents for Universal Life (Non-Linked) Policies

1. Rate of Return

- 1.1 Authorized insurers should project the benefit values using two different assumptions:
 - (a) Based on the minimum guaranteed crediting interest rates prescribed under the policy, excluding any non-guaranteed bonus. If the policy does not offer any guaranteed crediting interest rate, a conservative crediting interest rate of 0% per annum should be used (“Guaranteed Basis” or “Conservative Basis”).
 - (b) Based on the current assumed crediting interest rate (i.e. the current crediting interest rate assumption based on best estimate) forecasted by the authorized insurers (“Current Assumed Basis”), which may not be the same as the current crediting interest rate where declaration could be changed from time to time.
- 1.2 The crediting interest rates before any relevant policy fees and charges should be adopted.
- 1.3 In setting the best estimate assumptions under the Current Assumed Basis, the Appointed Actuary should have regard to AGN 9 issued by ASHK, in particular Appendix A, which provides guidance and consideration covering benefit illustration assumptions.
- 1.4 Authorized insurers are allowed to illustrate benefit values with crediting interest rate not higher than the rate determined under best estimation.

2. Fees and Charges

- 2.1 Under the Guaranteed Basis or Conservative Basis, the maximum scale of fees and charges should be adopted in the projection. If the maximum scale of fees and charges is not applicable, the current scale of fees and charges should be adopted.
- 2.2 Under the Current Assumed Basis, the current scale of fees and charges should be adopted.

- 2.3 Authorized insurers are required to provide Summary of Fees and Charges specified in the Standard Illustration of Universal Life (Non-Linked) Policies at the point-of-sale and for inforce re-projection. Among other fees and charges, the following should be disclosed:
- (a) Surrender charge rates / surrender charge amount (if applicable) should be disclosed. For surrender charge rates shown, the basis to which the rates apply should be clearly stated.
 - (b) Cost of insurance rates in each of the first 10-policy-year should be disclosed. For charges in later years, authorized insurers can show the rates with a 5-year interval until policy maturity.
 - (c) In addition to the current rates of charges, the maximum rates of charges should be shown. In case there is no maximum charge, "N.A." should be marked in the column to represent 'not applicable'.

3. Pessimistic and Optimistic Scenarios

- 3.1 The illustration based on an assumed crediting interest rate under pessimistic and optimistic scenarios is optional and can be shown only if:
- (a) The plan has significant (which is 20% or more) target equity investment; and
 - (b) In the opinion of the authorized insurer's Appointed Actuary, the optional illustration is not misleading to the applicants.
- 3.2 This illustration is allowed mainly for the demonstration of the variability of crediting interest rates due to exposure of equities. It should not be used as benchmark for future crediting interest rates, which would be considered to be misleading to applicants.
- 3.3 Authorized insurers are required to adopt the 25th and 75th percentiles of the investment returns in the projections as pessimistic and optimistic scenarios (except otherwise with the written consent of the IA after an authorized insurer has demonstrated to the satisfaction of the IA that it has practical difficulties for so doing) while keeping other assumptions (except dividend/coupon accumulation interest rates, if applicable) unchanged.

4. Disclosure

- 4.1 The insurance terminology in the benefit illustration documents should be consistent with other product documents (e.g. product brochure and policy provisions, etc.) using the admissible insurance terminology stated in Part I of the **Annex**. In case where an authorized insurer has a need to use its own terminology, the IA will consider granting written consent on an individual case basis depending on the justifications and whether the terminology is considered to be or likely to be misleading or not. For the avoidance of doubt, a list of inadmissible terminology which is considered to be misleading has shown in Part II of the **Annex** for attention.
- 4.2 For inforce re-projection illustration where the insurance terminologies differ to those in other documents for policies issued prior to the adoption of GL16 issued by the IA, a glossary with mapping of existing terminologies to admissible terminologies should be provided to policy holders.
- 4.3 Authorized insurers may choose to present the figures in separate tables showing surrender values before death benefits. The “total premiums paid” column and “account value” column under the Guarantee Basis / Conservative Basis and the Current Assumed Basis must be shown in each table. For the requirements under paragraph 3 of Appendix III, pessimistic and optimistic scenarios are required to be shown on the same page. In case where an authorized insurer has a need to present on separate pages for pessimistic and optimistic scenarios, the IA will consider granting written consent on an individual case basis depending on the justifications and whether the presentation is considered to be or likely to be misleading or not.
- 4.4 The term “Guaranteed Basis” can be used if and only if all values under the projection are guaranteed; otherwise, the term “Conservative Basis” should be used.
- 4.5 It is not allowed to include a projection other than the Guaranteed Basis / Conservative Basis or the Current Assumed Basis or pessimistic and optimistic scenarios.
- 4.6 Illustration of pessimistic and optimistic scenarios for supplementary illustration and inforce re-projection illustration is optional. If authorized insurers choose to show variation of illustration against

baseline scenario, both pessimistic and optimistic scenarios will have to be shown.

- 4.7 Only the figures calculated as at the “end of policy year” should be shown. Illustrations of benefits are to be provided for the years:
- (a) Stated for not less than 30 years (with at least a 5-year interval after policy year 5), or the benefit term if shorter; and
 - (b) At age 65, or on the maturity of the policy if earlier; and
 - (c) At age 100, or on the maturity of the policy if earlier; and
 - (d) On the maturity of the policy.

Standard Illustration for Universal Life (Non-Linked) Policies

X Y Z LIFE ASSURANCE COMPANY LIMITED

IMPORTANT:
THIS IS A SUMMARY ILLUSTRATION OF THE PROJECTED SURRENDER VALUES AND DEATH BENEFITS OF YOUR POLICY. IN NO WAY SHOULD IT AFFECT THE TERMS AND CONDITIONS STATED IN THE POLICY DOCUMENT.

THE ASSUMED CREDITING INTEREST RATES USED ARE FOR ILLUSTRATIVE PURPOSES ONLY. UNLESS OTHERWISE STATED, THEY ARE NEITHER GUARANTEED NOR BASED ON PAST PERFORMANCE. THE ACTUAL CREDITING INTEREST RATES MAY BE DIFFERENT!

Proposal Summary for ABC product

1. Name of Life Insured:	Age :	Sex :	Smoker / Non Smoker
--------------------------	-------	-------	---------------------

2. Benefit Summary

Policy Currency:

Benefit Description	[Initial] Sum Assured / Protection Amount ¹	[Initial] [M/Q/SA/A] Premium ²	Premium Payment Term ³	Benefit Term
Basic Plan				
Supplementary Benefits e.g. Accidental Death Benefit Double Indemnity Hospital Income				

Total [Initial] [M/Q/SA/A] Premium:

=====

[Notes for insurers:

¹ The protection amount could be a sum assured or the value of a regular payment as in the case of hospital income riders attaching to the policy. Where the sum assured varies, the initial sum assured at the policy commencement has to be stated. "N.A." could be stated if not applicable.

² Where the premium varies over the premium payment term, the initial premium at the policy commencement has to be stated. The monthly, quarterly, semi-annual or annual premium actually paid by the policy holder is to be stated.

³ In case of single premium, this column should state 'Single Premium' or '1' (to denote the premium payment term has only 1 premium payment).]

3a. Basic Plan – Illustration Summary

The table below illustrates projected Account Values, Surrender Values and Death Benefits under Guaranteed Basis / Conservative Basis and Current Assumed Basis. Figures under Guaranteed Basis are calculated based on minimum guaranteed crediting interest rate, maximum scale of fees and charges and exclude non-guaranteed bonus (if any). [Figures under Conservative Basis are not guaranteed and are calculated based on minimum guaranteed crediting interest rate / crediting interest rate of 0% p.a., maximum fees and charges / current fees and charges (which may be subject to changes), and exclude non-guaranteed bonus (if any).] Figures under Current Assumed Basis are calculated using current forecast crediting interest rate, current fees and charges (which may be subject to changes), and include non-guaranteed bonus (if any), and are not guaranteed. The actual amount payable may be lower or higher than those illustrated. Under certain circumstances, the non-guaranteed bonus may be zero (if applicable). The current assumed crediting interest rate illustrated by the company shall in no way be interpreted as a projection or estimation of the future returns. The future crediting interest rate may be lower or higher. Details of the maximum and current scale of fees and charges are presented in Summary of Fees and Charges.

End of Policy Year	Total Premiums Paid	Guaranteed Basis / Conservative Basis			Current Assumed Basis		
		[Description of Minimum Guaranteed Crediting Interest Rate / 0% p.a.]			[Description of Current Assumed Crediting Interest Rate]		
		Maximum / Current fees and charges are applied			Current fees and charges are applied		
		Account Value	Surrender Value	Death Benefit	Account Value	Surrender Value	Death Benefit
1	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	
2							
3							
4							
5							
10							
15							
20							
25							
30							
At age 65 (5-year interval)							
At Age 100							

Explanation on above illustration:
Please refer to the Explanation Notes Section.

3b. Basic Plan – Illustration Summary (Optional subject to paragraph 3 of Appendix III)

The table below illustrates the impact on Account Values, Surrender Values and Death Benefits under Pessimistic and Optimistic Scenarios. All figures illustrated are not guaranteed and are calculated based on pessimistic and optimistic views of future crediting interest rates, current scale of fees and charges and include non-guaranteed bonus (if any). The two scenarios do not represent lower and upper bounds for the actual crediting interest rate. They only illustrate, for reference purposes, the projected variation of Account Values, Surrender Values and Death Benefits of this policy based on the investment policies and objectives adopted by the company. The actual amount payable may change from time to time with the values being lower or higher than those illustrated. Under certain circumstances, the non-guaranteed bonus may be zero (if applicable). The crediting interest rates illustrated by the company shall in no way be interpreted as a projection or estimation of the future returns. The future crediting interest rate may be lower or higher. Details of the current scale of fees and charges are presented in Summary of Fees and Charges.

End of Policy Year	Total Premiums Paid	Pessimistic Scenario			Optimistic Scenario		
		Crediting Interest Rate: X% p.a.			Crediting Interest Rate: Y% p.a.		
		Current fees and charges are applied			Current fees and charges are applied		
		Account Value	Surrender Value	Death Benefit	Account Value	Surrender Value	Death Benefit
1	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	9,999,999	
2							
3							
4							
5							
10							
15							
20							
25							
30							
At age 65 (5-year interval)							
At Age 100							

Explanation on above illustration:
Please refer to the Explanation Notes Section.

4. Explanation Notes

- (i) Section 3 is *[Sections 3a and 3b (optional) are]* only a summary illustration of the major benefits of your basic plan excluding any supplementary benefits as shown in Section 2 (if applicable) and assume that all premiums are paid in full as planned without exercising the premium holiday option. You should refer to your licensed insurance intermediary or the company for more information or, if appropriate, a more detailed proposal.
- [if applicable]*
- (ii) The amount of total premium(s) may differ slightly from the total of the premiums payable in the policy due to rounding differences.
- (iii) When reviewing the values shown in the above illustration in Section 3, please note that the cost of living in the future is likely to be higher than it is today due to inflation.

5. Crediting Interest Rate History

[Website address that shows historical crediting interest rate]

You may browse the above website to understand the company's crediting interest rate history for reference purposes. Please be reminded that the crediting interest rates shown on the website are before any relevant policy fees and charges are applied (e.g. cost of insurance, policy administration fees, etc.).

Summary of Fees and Charges

The scales of fees and charges used in the basic plan illustration in Section 3 are set out below. The current scale of fees and charges, unless otherwise specified, is not guaranteed and is subject to the company's sole discretion to change with prior written notice to policy holders [x] months before effective (note: the [x] cannot be less than 1).

1) Premium Charge
[y]% of each premium paid will be deducted upfront.

2) Surrender Charge
You will be subject to a surrender charge if policy termination occurs before [N]th policy year [or policy maturity if applicable] based on the following table.

Policy year	Surrender charge rate on [Account Value] / Surrender charge amount
1	
2	
3	
etc.	

3) Cost of Insurance
Amount of cost of insurance depends on Insured's attained age, sex, smoking habit, sum assured and cost of insurance rates in the following table. The cost of insurance rates is applied to [sum at risk, which is the higher of sum assured less account value and zero]. The company retains the right to increase the cost of insurance rates up to the maximum rates as specified [if maximum rate is applicable] / The company retains the right to increase the cost of insurance rates above the current rates without limit [if maximum rate is not applicable].

Policy year	Attained age	Cost of insurance rate (Current rates)	Cost of insurance rate (Maximum rates)
1			<u>(Mark "N.A." if not applicable)</u>
2			
3			
...			
10			
15			
etc.			
(end of policy year)	(age at maturity)		

4) Policy Administration Fee
The policy administration fee will be charged from your policy account according to a percentage of your [account value] varied with policy year based on the following table. The company retains the right to increase the policy

administration fee up to the maximum rates as specified [if maximum rate is applicable] / The company retains the right to increase the policy administration fee above the current rates without limit [if maximum rate is not applicable].

Policy year	% of [Account Value] (Current rates)	% of [Account Value] (Maximum rates)
1		<u>(Mark "N.A." if not applicable)</u>
2		
3		
etc.		

- 5) All other current and maximum (if available) fees and charges (e.g. policy fee, etc.) should also be included and disclosed as appropriate.

Warning

- You should only apply for this product if you intend to pay the premium for the whole of the premium payment term.
- Should you terminate this policy early or cease paying premiums early, you may suffer a significant loss.
- Your policy may be terminated if the Account Value is insufficient to pay the fees and charges.

Declaration

I confirm having read and understood the information contained in this summary of illustrated benefits together with the Summary of Fees and Charges of this illustration document, and received the product brochure and the information regarding the relevant crediting interest rate history (if applicable).

Name of Applicant : _____ Signature : _____ Date : _____

Appendix IV: Specific Requirements for Benefit Illustration Documents for Non-Participating Policies

1. Principle

- 1.1 Non-participating policies offer only guaranteed benefit values throughout the whole policy term.
- 1.2 For the avoidance of doubt, any products involving non-guaranteed element(s), such as declared guaranteed benefits to be maintained in a deposit account for accumulation with non-guaranteed interest rate, should follow the Standard Illustration for Participating Policies.

2. Disclosure

- 2.1 The insurance terminology in the benefit illustration documents should be consistent with other product documents (e.g. product brochure and policy provisions, etc.), using the admissible insurance terminology stated in Part I of the **Annex**. In case where an authorized insurer has a need to use its own terminology, the IA will consider granting written consent on an individual case basis depending on the justifications and whether the terminology is considered to be or likely to be misleading or not. For the avoidance of doubt, a list of inadmissible terminology which is considered to be misleading has shown in Part II of the **Annex** for attention.
- 2.2 While the provision of inforce re-projection illustration is optional, if the insurance terminologies therein differ to those in other documents for policies issued prior to the adoption of GL16 issued by the IA, a glossary with mapping of existing terminologies to admissible terminologies should be provided to policy holders.
- 2.3 Only the figures calculated as at the “end of policy year” should be shown. Illustrations of benefits are to be provided for the years:
 - (a) Stated for not less than 30 years (with at least a 5-year interval after policy year 5), or the benefit term if shorter; and
 - (b) At age 65, or on the maturity of the policy if earlier; and

- (c) At age 100, or on the maturity of the policy if earlier; and
- (d) On the maturity of the policy.

Standard Illustration for Non-Participating Policies

X Y Z LIFE ASSURANCE COMPANY LIMITED

Proposal Summary for ABC product

1. Name of Life Insured:	Age :	Sex :	Smoker / Non Smoker
--------------------------	-------	-------	---------------------

2. Benefit Summary

Policy Currency:

Benefit Description	[Initial] Sum Assured / Protection Amount ¹	[Initial] [M/Q/SA/A] Premium ²	Premium Payment Term ³	Benefit Term
Basic Plan Supplementary Benefits e.g. Accidental Death Benefit Double Indemnity Hospital Income				

Total [Initial] [M/Q/SA/A] Premium:

=====

[Notes for insurers:

¹ The protection amount could be a sum assured or the value of a regular payment as in the case of hospital income riders attaching to the policy. Where the sum assured varies, the initial sum assured at the policy commencement has to be stated. "N.A." could be stated if not applicable.

² Where the premium varies over the premium payment term, the initial premium at the policy commencement has to be stated. The monthly, quarterly, semi-annual or annual premium actually paid by the policy holder is to be stated.

³ In case of single premium, this column should state 'Single Premium' or '1' (to denote the premium payment term has only 1 premium payment).]

3. Basic Plan – Illustration Summary

End of Policy Year	Total Premiums Paid	Guaranteed Surrender Value	Guaranteed Death Benefit
1	9,999,999	9,999,999	9,999,999
2			
3			
4			
5			
10			
15			
20			
25			
30			
At age 65 (5-year interval)			
At Age 100			

4. Explanation Notes

- (i) Section 3 is only a summary illustration of the major benefits of your basic plan excluding any supplementary benefits as shown in Section 2 (if applicable) and assumes that all premiums are paid in full when due. You should refer to your licensed insurance intermediary or the company for more information or, if appropriate, a more detailed proposal.
- (ii) *[if applicable]* The amount of total premium(s) may differ slightly from the total of the premiums payable in the policy due to rounding differences.
- (iii) When reviewing the values shown in the above illustration in Section 3, please note that the cost of living in the future is likely to be higher than it is today due to inflation.

Warning

- You should only apply for this product if you intend to pay the premium for the whole of the premium payment term.
- Should you terminate this policy early or cease paying premiums early, you may suffer a significant loss.

Declaration

I confirm having read and understood the information contained in this summary of illustrated benefits, and received the product brochure/leaflet.

Name of Applicant : _____ Signature : _____ Date : _____

Annex: List of Admissible and Inadmissible Insurance Terminologies

Part I – List of ADMISSIBLE alternative insurance terminology

Insurance terminology in the templates (English)	Admissible alternative insurance terminology (English)	Insurance terminology in the templates (Chinese)	Admissible alternative insurance terminology (Chinese)
Non-Participating, Participating and Universal life products			
Benefit Term	Policy Term / Protection up to age	保障年期	保單年期 / 保單期 / 保險單期 / 保障至年齡 / 保障期至(歲)
--	--	身故賠償額	身故保障 / 身故賠償 / 身故權益 / 身故保障賠償 / 死亡賠償
--	Cash coupons	--	現金 / 可支取現金
--	Guaranteed monthly income / Monthly guaranteed annuity payment (Note A)	--	保證每月入息 / 每月保證年金金額
--	Paid up addition	--	紅利繳清保險
--	--	保費	供款
Premium Payment Term	Premium Term / Premium Payment Period / Premium Payment up to age	保費供款年期	保費繳費年期 / 保費繳款年期 / 保費繳付年期 / 保費繳付期 / 繳付保費年期 / 保費年期 / 保費繳費至年齡 / 保費繳付期至(歲)
--	Maturity Dividend / Maturity Bonus	--	期末紅利 / 期滿紅利
--	Special Dividend / Special Bonus	--	特別紅利
Reversionary Bonus	--	復歸紅利	歸原紅利 / 保額增值紅利
Surrender Value	Surrender Benefit / Cash Value	退保發還金額	退保保障 / 退保價值 / 現金價值 / 現金值 / 淨現金價值

Insurance terminology in the templates (English)	Admissible alternative insurance terminology (English)	Insurance terminology in the templates (Chinese)	Admissible alternative insurance terminology (Chinese)
Sum Assured	Sum Insured	保險金額 / 保障金額	保額 / 保障額 / 投保額
Supplementary Benefits	Supplementary Contract / Rider	--	--
Terminal Dividend / Terminal Bonus	--	終期紅利	--
--	--	戶口價值	賬戶價值
--	--	保險成本	保險費用 / 人壽保險費
--	--	保險成本費率	保險費用率
Premium Charge	Policy Premium Charge / Premium Expense Charge	保費費用	保單保費費用 / 保費行政費用
Sum At Risk	Net Amount At Risk	淨保額	風險額 / 淨承擔風險總值
--	--	萬用壽險	萬用人壽保險

Part II – List of INADMISSIBLE alternative insurance terminology

Insurance terminology in the templates (English)	INADMISSIBLE insurance terminology (English)	Insurance terminology in the templates (Chinese)	INADMISSIBLE insurance terminology (Chinese)
Non-Participating, Participating and Universal Life Products			
Benefit Term	Coverage up to age	--	--
Sum Assured	Face Amount / Coverage / Benefit Amount (Note B)	保險金額	面值
Accumulated Dividends & Interest	Step up protection cash value / Step up protection face amount / Accumulated dividends / Balance of accumulated dividends	累積紅利及利息	積存紅利 / 積存的保單紅利 / 累積紅利 / 積存紅利餘額
Terminal Dividend/ Terminal Bonus	Maturity Dividend / Maturity Bonus / Special Dividend / Partner Bonus (Note C)	終期紅利	期滿紅利 / 期滿花紅 / 期末獎賞 / 期末紅利 / 特別紅利 / 特別獎賞 / 終期獎賞 / 終期花紅 / 期終額外紅利
Account Value	Accumulation Value / Accumulated Value / Policy Value	戶口價值	累積價值 / 保單價值 / 帳戶價值
Crediting Interest Rate	Crediting Rate / Interest Rate / Projected Crediting Rate	派息率	利率 / 給付利率 / 息率 / 存入利率 / 存入年利率
Current Assumed Basis	Current Basis / Projected (Non-Guaranteed) Basis	現時假設基礎	現行基礎 / 現時(非保證)基礎 / 預計(非保證)基礎
--	--	現時假設派息率	現時息率
Premium Charge	Administrative Charges / Management Charge	保費費用	行政管理費
Surrender Charge	Withdrawal Charge	退保費用	提早贖回費 / 提款手續費

Notes:

- A. For products offering monthly income, the guaranteed monthly income cannot be used to mean

sum assured (or initial sum assured). This feature can be included as additional information on top of the sum assured (or initial sum assured).

- B. Authorized insurers can include additional information in the Standard Illustrations only if it is relevant to illustrate the product features and of value to customers. For example, the term “Face Amount” defined as the unit measure for premium should not be used in the illustration.
- C. Terminal Dividend refers to dividend payable upon death, surrender or maturity. If the dividend is only payable upon maturity, it should be named as Maturity Dividend / Maturity Bonus. For dividend / bonus to be issued under other situation, it could be labeled as Special Dividend / Bonus or other appropriate terms, provided that such label is not misleading with detail explanation presented in the illustration.

**GUIDELINE
ON
COOLING-OFF PERIOD**

Insurance Authority

<u>Contents</u>		<u>Page</u>
1.	Introduction.....	1
2.	Interpretation.....	1
3.	Relevant Regulatory Requirements and Status of this Guideline.....	3
4.	Scope of Application.....	4
5.	Cooling-off Period.....	4
6.	Right to Cancel during the Cooling-off Period	7
7.	Obligations specific to Authorized Insurers and Licensed Insurance Intermediaries.....	7
8.	Statement in relation to Cooling-off Period in Policy Application Form.....	10
9.	Reminder of Cooling-off Period at Policy Issuance.....	10
10.	Digital Distribution Channels.....	11
11.	Commencement.....	11
12.	Transitional Provision.....	11
	Guideline on Statement in relation to Cooling-off Period in Policy Application Form	Appendix 1
	Guideline on Reminder of Cooling-off Period at Policy Issuance	Appendix 2

1. Introduction

- 1.1 The Insurance Authority (“IA”) issues this Guideline pursuant to section 133 of the Insurance Ordinance (Cap. 41) (“Ordinance”) and its principal function to regulate and supervise the insurance industry for the protection of policy holders. This Guideline also takes account of the Insurance Core Principles, Standards, Guidance and Assessment Methodology (“ICP”) promulgated by the International Association of Insurance Supervisors, in particular ICP 19 which stipulates that the conduct of the business of insurance should ensure that customers are treated fairly.
- 1.2 Life insurance policies are generally long term in nature and the decision to purchase a life insurance policy is an important one. Providing policy holders with the opportunity to reflect on their decision is a key aspect of the “fair customer treatment” principle. The inclusion of a cooling-off period in relation to certain types of life insurance policies (see paragraph 4.2 of this Guideline) can help provide this opportunity for reflection and thereby protect policy holders’ interests. This Guideline aims to set out the relevant requirements for such cooling-off period.

2. Interpretation

- 2.1 In this Guideline, unless the context otherwise specifies:
- (a) “Cooling-off Notice” in relation to a life insurance policy to which this Guideline applies (see paragraph 4.2), means a notice:
 - (i) created by the authorized insurer of the policy;
 - (ii) containing the matters stated in paragraph 7.1 of this Guideline which explains the Cooling-off Period; and
 - (iii) delivered to the policy holder or the policy holder’s nominated representative directly by the authorized insurer;
 - (b) “Cooling-off Period” in relation to a life insurance policy to which this Guideline applies (see paragraph 4.2), means the 21 calendar day period specified in paragraph 5.4 during which the policy holder can cancel the policy and obtain a refund of premium;

- (c) “Date of issue” in relation to a life insurance policy to which this Guideline applies (see paragraph 4.2), means the date on which the authorized insurer, having accepted an application for insurance by the policy holder, creates the document that is policy holder’s life insurance policy;
- (d) “Delivery” in relation to a life insurance policy to which this Guideline applies (see paragraph 4.2) or Cooling-off Notice, means the delivery of the policy or the Cooling-off Notice to the policy holder, or to nominated representative of the policy holder, by any the following means:
 - (i) by hand;
 - (ii) by post (including registered post); or
 - (iii) by electronic means;regardless of the means of delivery is used, it is the responsibility of the authorized insurer of the life insurance policy, to have sufficient proof of delivery and the timing of delivery;
- (e) “Group policy” means a life insurance policy under which a group of employees of a company, partnership or sole proprietor, or members of an organization or other similar group of people, are insured;
- (f) “Life insurance policy” means a contract of insurance which is classed as long term business as defined under the Ordinance;
- (g) “Nominated representative of the policy holder” means an individual expressly nominated and authorized by the policy holder to receive or handle the life insurance policy or policy related documents on behalf of the policy holder (e.g. policy holder’s spouse or family member); and
- (h) “Working day” means a day other than (i) a public holiday; (ii) a Saturday; or (iii) a gale warning day or black rainstorm warning day as defined by section 71(2) of the Interpretation and General Clauses Ordinance (Cap. 1).

- 2.2 Unless otherwise specified, words and expressions used in this Guideline shall have the same meanings as given to them in the Ordinance.

3. Relevant Regulatory Requirements and Status of this Guideline

- 3.1 This Guideline should be read in conjunction with the relevant provisions of the Ordinance and all other relevant rules, codes, circulars, and guidelines issued by the IA or other regulatory bodies, including but not limited to the following:

- (a) Guideline on Underwriting Class C Business (GL15) issued by IA;
- (b) Guideline on Underwriting Long Term Insurance Business (other than Class C Business) (GL16) issued by IA;
- (c) Code of Conduct for Licensed Insurance Agents issued by the IA;
- (d) Code of Conduct for Licensed Insurance Brokers issued by the IA;
- (e) Code on Investment-Linked Assurance Schemes issued by the Securities and Futures Commission; and
- (f) All relevant rules, codes, circulars and guidelines administered or issued by the Hong Kong Monetary Authority.

- 3.2 This Guideline does not have the force of law, in that it is not subsidiary legislation, and should not be interpreted in a way that would override the provision of any law. A non-compliance with the provisions in this Guideline would not by itself render an authorized insurer or licensed insurance intermediary liable to judicial or other proceedings. A non-compliance may, however, for example reflect on the IA's view of the continued fitness and properness of (i) the directors, controllers and key persons in relevant control functions of the authorized insurers to which this Guideline applies and (ii) the licensed insurance intermediaries to which this Guideline applies and (in the case of licensed insurance agencies and licensed insurance broker companies) their directors, controllers and responsible officers. The IA may also take guidance from this Guideline in considering whether there has been an act or omission likely to be prejudicial

to the interests of policy holders or potential policy holders (albeit the IA will always take account of the full context, facts and impact of any matter before it in this respect).

4. Scope of Application

- 4.1 This Guideline applies to all authorized insurers carrying on long term business, and all licensed insurance intermediaries carrying on regulated activities in respect of long term business.
- 4.2 This Guideline applies to all new life insurance policies, except for the following types of insurance policies:
 - (a) group policies; and
 - (b) any policies of the nature specified in Class G, Class H and Class I in Part 2 of Schedule 1 to the Ordinance.
- 4.3 Further, this Guideline does not apply to the following life insurance policy related transactions:
 - (a) a premium increase for an increase in sum assured in respect of an existing policy;
 - (b) an increase in sum assured by way of indexation under the terms and conditions of an existing life policy;
 - (c) a new rider being added to an existing life insurance policy; and
 - (d) a policy holder exercising his/her conversion rights under the terms and conditions of an existing life insurance policy (e.g. a right to convert a term basic or term rider into a whole of life policy).

5. Cooling-off Period

- 5.1 For the purpose of this Guideline, the Cooling-off Period is a mechanism in relation to a life insurance policy to which this Guideline applies (see

paragraph 4.2), which allows the policy holder to cancel the policy within the 21 calendar day period specified in paragraph 5.4 and obtain a refund of premium.

- 5.2 The Cooling-off Period is to be drawn to the attention of the policy holder, by means of:
- (a) a statement in relation to the Cooling-off Period to be included in the application form for the life insurance policy, in accordance with paragraph 8;
 - (b) a reminder to be included with the life insurance policy, in accordance with paragraph 9, when the policy is delivered; and
 - (c) the delivery to the policy holder (or the nominated representative of the policy holder) of the Cooling-off Notice by the authorized insurer.

- 5.3 The Cooling-off Period should commence by the delivery to the policy holder or nominated representative of the policy holder, of:
- (a) the life insurance policy (together with the reminder of the Cooling-off Period as stated in paragraph 9); or
 - (b) the Cooling-off Notice,

whichever is the earlier.

- 5.4 The Cooling-off Period is the period of 21 calendar days immediately following the day of the delivery to the policy holder or the nominated representative of the policy holder, of:
- (a) the life insurance policy; or
 - (b) the Cooling-off Notice,

whichever is the earlier. For the avoidance of doubt, the day of delivery of the life insurance policy or the Cooling-off Notice is not included for the calculation of the 21 calendar day period. However, if the last day of the 21

calendar day period is not a working day, the period shall include the next working day.

5.5 In order for the Cooling-off Period to commence within an appropriate time-frame of the date of issue of the life insurance policy:

- (a) where the life insurance policy is to be delivered by the authorized insurer directly to the policy holder (or the nominated representative of the policy holder), the authorized insurer should deliver the policy within 9 calendar days of the date of issue of the policy (the “**9 calendar day period**”);
- (b) where the life insurance policy is to be delivered to the policy holder (or the nominated representative of the policy holder) via a licensed insurance intermediary,
 - (i) the authorized insurer should provide the policy to the licensed insurance intermediary sufficiently in advance of the end of the 9 calendar day period, to enable the licensed insurance intermediary to deliver the policy to the policy holder (or the nominated representative of the policy holder) within the 9 calendar day period; and
 - (ii) on receipt of the policy, the licensed insurance intermediary should use all reasonable endeavours to deliver the policy to the policy holder (or the nominated representative of the policy holder) within the 9 calendar day period;
- (c) the authorized insurer should deliver the Cooling-off Notice directly to the policy holder (or the nominated representative of the policy holder) within the 9 calendar day period; and
- (d) if the last day of the 9 calendar day period is not a working day, the period shall include the next working day.

6. Right to Cancel during the Cooling-off Period

- 6.1 Subject to paragraphs 6.2 to 6.3 below, a policy holder has the right to cancel the life insurance policy at any time within the Cooling-off Period and obtain a refund of premium. To exercise this right of cancellation, the policy holder would need to provide written notice directly to the authorized insurer requesting cancellation of the policy and return the policy, if applicable.
- 6.2 For all life insurance policies to which this Guideline applies (except policies of the nature specified in Class C in Part 2 of Schedule 1 to the Ordinance and single premium policies), the refund should be 100% of the premium which the policy holder has paid.
- 6.3 For all life insurance policies specified in Class C in Part 2 of Schedule 1 to the Ordinance and all single premium policies to which this Guideline applies, authorized insurers have the right to apply a Market Value Adjustment (“MVA”) to the premium to determine the amount that is to be refunded, subject to all of the following requirements being satisfied:
- (a) Any such MVA must be calculated solely with reference to the loss that the authorized insurer might make in realizing the value of any assets acquired through investment of the premiums under the policy. The MVA calculation must not include any allowance for expenses or commissions in connection with the issuance of the policy.
 - (b) Prior to the completion of the policy application form, the authorized insurer’s right to apply an MVA and its basis of calculation must have been disclosed in the relevant product brochure.
 - (c) The prospective policy holder must have been informed of the authorized insurer’s right to apply an MVA and its basis of calculation before the prospective policy holder signs his/her policy application form.

7. Obligations specific to Authorized Insurers and Licensed Insurance Intermediaries

- 7.1 An authorized insurer is required to deliver the Cooling-off Notice to the policy holder or nominated representative of the policy holder in accordance

with paragraph 5.5(c). The authorized insurer should include the following information in the Cooling-off Notice:

- (a) the availability of his/her life insurance policy and the expiry date of the Cooling-off Period;
- (b) the right to re-consider his/her decision to purchase the life insurance product within the Cooling-off Period;
- (c) the right to obtain a refund of premium paid if the policy is cancelled within the Cooling-off Period;
- (d) the contact information of the customer service department of the authorized insurer (including the address, service hotline number and email address); and
- (e) a reminder that if the policy holder or the nominated representative of the policy holder does not receive the policy within 9 calendar days after delivery of the Cooling-off Notice, he/she should contact the authorized insurer.

7.2 An authorized insurer is also required to:

- (a) comply with paragraph 5.5(a) if the life insurance policy is to be delivered by the authorized insurer directly to the policy holder (or the nominated representative of the policy holder);
- (b) comply with paragraph 5.5(b)(i) if the policy is to be delivered to the policy holder (or the nominated representative of the policy holder) via a licensed insurance intermediary;
- (c) specify in its licensed insurance intermediaries' training materials and internal guidelines that its insurance intermediaries must comply with the requirements set out in paragraphs 5.5(b)(ii), 6.3(c) and 7.3;
- (d) comply with the requirements set out in paragraph 7.3(a) if the policy is not entered into through a licensed insurance intermediary;
- (e) devise internal control measures to ensure and provide proof that:

- (i) policies are delivered to policy holders (or the nominated representatives of policy holders) within the 9 calendar day period; and
- (ii) Cooling-off Notices are delivered to the policy holders (or the nominated representatives of the policy holders) within the 9 calendar day period;
- (f) keep records of proof referenced in paragraph 7.2(e) (e.g. copies of the acknowledgements of receipt of policy delivery, if applicable). In case of a complaint or dispute, the authorized insurer may be required to produce evidence to show that the policy or the Cooling-off Notice was delivered (and when the delivery took place);
- (g) maintain records in respect of any cases of complaints or disputes where policy holders have sought to cancel their policies and obtain refund of premiums after the Cooling-off Period has expired, but such requests have been refused; and
- (h) provide records referred to in paragraphs 7.2(e), (f) and (g) to the IA as soon as is practicable upon request.

7.3 A licensed insurance intermediary should:

- (a) before a prospective policy holder signs the policy application form, inform the prospective policy holder of the right to cancel the policy within the Cooling-off Period, the expiry date of the Cooling-off Period and the authorized insurer's right to apply an MVA together with its basis of calculation (if applicable);
- (b) comply with the requirements in paragraph 5.5(b)(ii), if applicable; and
- (c) comply with any other requirements about the Cooling-off Period as set out in other codes and guidelines which apply to the licensed insurance intermediary.

8. Statement in relation to Cooling-off Period in Policy Application Form

- 8.1 A statement in line with the “Guideline on Statement in relation to Cooling-off Period in Policy Application Form” (**Appendix 1**) should be included by the authorized insurer in the policy application form immediately above the space for the prospective policy holder’s signature.
- 8.2 The statement should be prominently displayed using a legible font size which is no smaller than the font size used for any other declaration on the policy application form. This requirement applies irrespective of whether the policy application form is paper, electronic or in some other format.
- 8.3 The statement should be communicated in the same language(s) as are used for all other sections of the policy application form.

9. Reminder of Cooling-off Period at Policy Issuance

- 9.1 The authorized insurer should include a reminder to the policy holder of the Cooling-off Period with the life insurance policy when the policy is delivered.
- 9.2 The reminder may be provided by way of a letter from the authorized insurer delivered directly to the policy holder with the delivery of the policy, or a statement included by the authorized insurer on the policy jacket or policy cover, taking into account the specificities of the medium used.
- 9.3 The reminder must be communicated in the same language(s) as the policy and other communications/documents which are (or have been) provided or sent to the policy holder in relation to the policy.
- 9.4 The reminder must be prominently displayed using a legible font size.
- 9.5 For further details regarding the required reminder, see the “Guideline on Reminder of Cooling-off Period at Policy Issuance” (**Appendix 2**).

10. Digital Distribution Channels

- 10.1 Where an authorized insurer conducts insurance business through a digital distribution channel (e.g. webpage/mobile app), in relation to life insurance policies to which this Guideline applies which are promoted, offered or purchased through that digital channel, the authorized insurer should use appropriate tools to ensure compliance with the requirements of this Guideline.

11. Commencement

- 11.1 This Guideline shall take effect from 23 September 2019 (“Effective Date”).

12. Transitional Provision

- 12.1 The IA recognizes that authorized insurers and licensed insurance intermediaries to which this Guideline applies may require time to update their documentation, controls and processes to align with the requirements in paragraphs 5 to 10 of this Guideline. A transitional period of 12 months from the Effective Date (i.e. from 23 September 2019 to 22 September 2020) will therefore apply in respect of the requirements in paragraphs 5 to 10 of this Guideline (“Transitional Period”). In respect of life insurance policies with a date of issue during this Transitional Period, authorized insurers and licensed insurance intermediaries may either comply with the requirements in paragraphs 5 to 10 of this Guideline or the requirements issued by The Hong Kong Federation of Insurers in its document entitled “Cooling-off Period” (version effective from 1 February 2010), which is hereby adopted solely for the Transitional Period.

September 2019

**Guideline on Statement in relation to
Cooling-off Period in Policy Application Form**

An explanation of a policy holder's right to cancel the life insurance policy within the Cooling-off Period must be prominently displayed in the application form for the policy and (depending on the distribution channel utilized) must be clearly explained to him/her by the insurer or licensed insurance intermediary (as the case may be) during application process. Guidance on the appropriate wording which may be used for this statement is given below:

1. **For all life insurance policies to which this Guideline applies (except policies of the nature specified in Class C in Part 2 of Schedule 1 to the Ordinance and single premium policies)**

"Cancellation Rights and Refund of Premium(s) within Cooling-off Period

I understand that I have the right to cancel the policy and obtain a refund of any premium(s) paid by giving a written notice to [the name of authorized insurer]. I understand that to exercise this right, the notice of cancellation must be [signed by me and] received directly by [name of authorized insurer] at [address of the authorized insurer's Hong Kong Main Office] [see Notes (a) and (b) below] within the Cooling-off Period. I understand that the Cooling-off Period is the period of **21 calendar days** immediately following either the day of delivery of the policy or the Cooling-off Notice to me or my nominated representative (whichever is the earlier). I understand that the Cooling-off Notice is a notice that will be sent to me or my nominated representative by [name of authorized insurer] to notify me of the Cooling-off Period around the time the policy is delivered."

Notes

- (a) Authorized insurers may adjust the above wording and specify the manner in which the written notice to cancel the policy is to be given by a policy holder. For example, a written notice may be sent by the policy holder to the authorized insurer by email.
- (b) The address must be a Hong Kong address.

2. **For all policies of the nature specified in Class C in Part 2 of Schedule 1 to the Ordinance and all single premium policies to which this Guideline applies**

"Cancellation Rights and Refund of Premium(s) within Cooling-off Period

I understand that I have the right to cancel the policy and obtain a refund of any premium(s) paid less any market value adjustment, by giving a written notice to [the name of authorized insurer]. I understand that to exercise this right, the notice of cancellation must be [signed by me and] received directly by [name of authorized insurer] at [address of the authorized insurer's Hong Kong Main Office] [see Notes (a) and (d) below] within the Cooling-off Period. I understand that the Cooling-off Period is the period of **21 calendar days** immediately following either the day of delivery of the policy or the Cooling-off Notice to me or my nominated representative (whichever is the earlier). I understand that the Cooling-off Notice is a notice that will be sent to me or my nominated representative to notify me of the Cooling-off Period around the time the policy is delivered."

Notes

- (a) Authorized insurers may adjust the above wording and specify the manner in which the written notice to cancel the policy is to be given by a policy holder. For example, a written notice may be sent by the policy holder to the authorized insurer by email.
- (b) As part of the sales process, authorized insurers will be required to disclose, before the application is signed, their rights to apply an MVA and the details of the basis of calculation of the MVA.
- (c) An authorized insurer's right to apply an MVA (together with its basis of calculation) must be included in the relevant product brochure.
- (d) The address must be a Hong Kong address.

Guideline on Reminder of Cooling-off Period at Policy Issuance

A clear reminder of the Cooling-off Period must be given to the policy holder together with the life insurance policy at the time the policy is delivered. The policy holder must also be advised of the right to call the authorized insurer direct if he/she wishes to further understand the Cooling-off Period. Guidance on the appropriate wording which may be used for this reminder is given below:

"Your Right to Change Your Mind

If you are not fully satisfied with this policy, you have the right to change your mind.

We trust that this policy will satisfy your financial needs. However, if you are not completely satisfied then you should:

- (a) return the policy, if applicable, and
- (b) provide us with written notice, [signed by you], requesting cancellation.

The policy will then be cancelled and the premium(s) paid * will be refunded.

**[For all policies of the nature specified in Class C in Part 2 of Schedule 1 to the Insurance Ordinance (Cap. 41) and all single premium policies, add "less a deduction of the amount (if any) by which the value of your investment has fallen at the time when your cancellation notice is received by us".]*

These cancellation rights are subject to the following conditions:

- (a) Your request to cancel the policy must be [signed by you and] received directly by our office at [address of the authorized insurer's Hong Kong Main Office] [see Note (a) below] within **21 calendar days** immediately following the day of delivery of this policy or the Cooling-off Notice to you or your nominated representative (whichever is the earlier). (The Cooling-off Notice is the notice sent to you or your

Appendix 2

nominated representative (separate from the policy) notifying you of your right to cancel within the stated 21 calendar day period).

- (b) No refund can be made if a claim payment under the policy has been made prior to your request for cancellation.

Should you have any further queries, you may contact [contact information of the authorized insurer (including the address, service hotline number and email address)] and we will be happy to explain your cancellation rights further."

Note

- (a) Authorized insurers may adjust the above wording and specify the manner in which the written notice to cancel the policy is to be given by a policy holder. For example, a written notice may be sent by the policy holder to the authorized insurer by email.

GL30

**GUIDELINE
ON
FINANCIAL NEEDS ANALYSIS**

Insurance Authority

<u>Contents</u>		<u>Page</u>
1.	Introduction.....	1
2.	Interpretation.....	1
3.	Relevant Regulatory Requirements and Status of this Guideline.....	2
4.	Scope of Application.....	3
5.	Purpose.....	3
6.	Detailed Requirements for the Financial Needs Analysis...	4
7.	Commencement.....	10
8.	Transitional Provision.....	11
Financial Needs Analysis Template		Appendix

1. Introduction

- 1.1 The Insurance Authority (“IA”) issues this Guideline pursuant to section 133 of the Insurance Ordinance (Cap. 41) (“Ordinance”) and its principal function to regulate and supervise the insurance industry for the protection of policy holders and potential policy holders. This Guideline also takes account of the Insurance Core Principles, Standards, Guidance and Assessment Methodology (“ICP”) promulgated by the International Association of Insurance Supervisors, in particular ICP 19 which stipulates that the conduct of the business of insurance should ensure that customers are treated fairly.
- 1.2 Life insurance policies are generally long term in nature and may lock up the liquidity of customers. It is therefore important for authorized insurers and licensed insurance intermediaries to ensure that a proper assessment of each customer’s circumstances including needs, financial situation, ability and willingness to pay premiums, etc., is undertaken before any recommendation is made in respect of a suitable life insurance policy for the customer, and that the recommendation is based on that assessment. For the purposes of this Guideline, this assessment is referred to as a Financial Needs Analysis (“FNA”).
- 1.3 This Guideline sets out the minimum standards and practices that need to be implemented and adopted for carrying out appropriate FNAs in respect of customers looking to enter into life insurance policies.

2. Interpretation

- 2.1 In this Guideline, unless the context otherwise specifies:
 - (a) “Customer” bears the same meaning as policy holder or potential policy holder, and those terms are used under the Ordinance;
 - (b) “Group policy” means a life insurance policy under which a group of employees of a company, partnership or sole proprietor, or members of an organization or other similar group of people, are insured; and
 - (c) “Life insurance policy” means a contract of insurance which is classed as long term business as defined under the Ordinance.

- 2.2 Unless otherwise specified, words and expressions used in this Guideline shall have the same meanings as given to them in the Ordinance.

3. Relevant Regulatory Requirements and Status of this Guideline

- 3.1 This Guideline should be read in conjunction with the relevant provisions of the Ordinance, all other relevant rules, codes, circulars, and guidelines issued by the IA or other regulatory bodies, including but not limited to the following:
- (a) Section 90(d) of the Ordinance, which requires a licensed insurance intermediary when carrying on a regulated activity “*to have regard to the particular circumstances of the policy holder or the potential policy holder that are necessary for ensuring that the regulated activity is appropriate to the policy holder or potential policy holder.*”
 - (b) Guideline on Underwriting Class C Business (GL15) issued by the IA;
 - (c) Guideline on Underwriting Long Term Insurance Business (other than Class C Business) (GL16) issued by the IA;
 - (d) Guideline on Sale of Investment Linked Assurance Scheme (“ILAS”) Products (GL26) issued by the IA;
 - (e) Guideline on Benefit Illustrations for Long Term Insurance Policies (GL28) issued by the IA;
 - (f) Code of Conduct for Licensed Insurance Agents issued by the IA;
 - (g) Code of Conduct for Licensed Insurance Brokers issued by the IA; and
 - (h) All relevant rules, codes, circulars and guidelines administered or issued by the Hong Kong Monetary Authority.
- 3.2 This Guideline does not have the force of law, in that it is not subsidiary legislation, and should not be interpreted in a way that would override the provision of any law. A non-compliance with the provisions in this Guideline would not by itself render an authorized insurer or a licensed insurance intermediary liable to judicial or other proceedings. A non-

compliance may, however, for example, reflect on the IA's view of the continued fitness and properness of (i) the directors, controllers and key persons in relevant control functions of the authorized insurers to which this Guideline applies and (ii) the licensed insurance intermediaries to which this Guideline applies and (in the case of licensed insurance agencies and licensed insurance broker companies) their directors, controllers and responsible officers. The IA may also take guidance from this Guideline in considering whether there has been an act or omission likely to be prejudicial to the interests of policy holders or potential policy holders (albeit the IA will always take account of the full context, facts and impact of any matter before it in this respect).

4. Scope of Application

- 4.1 This Guideline applies to all authorized insurers carrying on or advising on long term business, and all licensed insurance intermediaries carrying on regulated activities in respect of long term business.

5. Purpose

- 5.1 The FNA is a process during which an authorized insurer or a licensed insurance intermediary collects relevant and sufficient information from a customer so that the authorized insurer or licensed insurance intermediary can properly assess the circumstances¹ of the customer (including needs, financial situation, etc.) before making any recommendation in respect of certain types of life insurance policies (detailed in paragraph 6 below) to the customer.

- 5.2 The FNA process is vital to the principle of "fair customer treatment" and must be strictly adhered to so that:

- (a) customers are provided with adequate and accurate information before, during and after the point-of-sale of a life insurance policy; and

¹ When investment-linked assurance scheme ("ILAS") products (i.e. contracts of insurance in Class C (Linked long term) of Part 2 of Schedule 1 to the Ordinance) may be the subject of a recommendation to a customer, the assessment should also include the customer's investment objectives, preferred investment horizon, risk tolerance, investment knowledge and experience, and other relevant attributes. The assessment should be carried out based on all relevant information collected in an FNA, Risk Profile Questionnaire ("RPQ") and the "Statement of Purpose" in the Important Facts Statement ("IFS"). For the RPQ and IFS requirements, please refer to the Guideline on Sale of Investment Linked Assurance Scheme ("ILAS") Products (GL26) issued by the IA.

- (b) any recommendation given to a customer in respect of a life insurance policy is suitable for the customer.

5.3 In assessing whether the requirements in this Guideline have been satisfied, the IA will adopt a principle-based approach. This approach requires that the underlying objective and substance of each requirement in this Guideline be achieved, regardless of the exact form of arrangement adopted by authorized insurers or licensed insurance intermediaries to achieve it.

6. Detailed Requirements for the FNA

Types of life insurance policies for which an FNA must be carried out

6.1 Save in the case of exempted products (see paragraph 6.2 below), and regardless of the channel of distribution, an FNA must be performed for every application for a new life insurance policy², where the policy which is the subject of the application is one of the following types:

- (a) policies of the nature specified in Class A in Part 2 of the Schedule 1 to the Ordinance except:
 - (i) term insurance policies;
 - (ii) refundable insurance policies without substantial savings component, or renewable insurance policies without cash value, that provide insurance protection (e.g. hospital cash, medical, critical illness, personal accident, disability or long-term care cover); or
 - (iii) group policies;
- (b) policies of the nature specified in Class C in Part 2 of the Schedule 1 to the Ordinance.

6.2 A policy is an exempted product for the purposes of paragraph 6.1 above (and hence an FNA would not be required in respect of an application for such policy), if the product meets all the requirements in (a) to (d) below:

² Treatment of a new rider or additional top-up to an existing policy should follow the FNA requirements as if the rider or top-up is a new life insurance policy.

- (a) the policy is:
 - (i) a non-participating endowment product with guaranteed payment of not less than the total premium paid upon maturity; or
 - (ii) a universal life product providing a surrender value which is not less than the total premium paid at all times;
- (b) the policy is sold to customers directly by an authorized insurer or by a licensed insurance agency of an authorized insurer through a digital distribution channel (e.g. webpage or mobile app);
- (c) the authorized insurer or licensed insurance agency does not provide a recommendation to the customer before or during the point-of-sale; and
- (d) in addition to complying with the existing product disclosure requirements, the authorized insurer or licensed insurance agency makes the following disclosures in relation to the policy before a customer is able to purchase it:
 - (i) state the objective(s) of the policy;
 - (ii) state the type and nature of the policy (e.g. “The product is a long term insurance plan underwritten by [name of authorized insurer] and is neither a bank deposit nor a bank savings plan”);
 - (iii) highlight the target premium amount, payment period and benefit periods;
 - (iv) include a prominent warning to the customer concerning affordability of the policy during the entire premium payment period; and
 - (v) include relevant information highlighting the liquidity risk associated with the product.

Information to be collected

- 6.3 Save for the life insurance policies within the scope of paragraphs 6.1(a)(i) to (iii) and 6.2 above, an authorized insurer or a licensed insurance intermediary cannot opt out (and cannot accept an application from a customer who wishes to opt out) of the FNA process unless it obtains the IA's prior consent (e.g. through the InsurTech Sandbox).
- 6.4 The extent and granularity of the information to be collected can be varied depending on the particular circumstances of the target customers and the mode of operation of the distribution channel. Authorized insurers and licensed insurance intermediaries have an obligation to collect adequate information to place themselves in a position whereby they can perform reasonable assessments before making any insurance recommendation.
- 6.5 A template is set out at **Appendix** to illustrate the information that should normally be collected during the FNA process. Authorized insurers and licensed insurance intermediaries can add questions or modify the exact wording of the questions for the purposes of a proper assessment of the customer's particular circumstances, having due regard to the products available under the relevant distribution channel and technology adopted. However, any such changes must be justifiable on the basis that, (i) the substantive meaning of the questions (in the Appendix) are retained in spite of the changes made; (ii) in spite of the changes made, the principle of "fair customer treatment" continues to be satisfied; and (iii) the reason(s) for such changes must be documented.
- 6.6 If a customer refuses to disclose information during the FNA process, the licensed insurance intermediary should clearly explain to the customer that without such information the authorized insurer and licensed insurance intermediary would be unable to comply with the requirements contained in this Guideline, and consequently this would likely result in the authorized insurer rejecting the application. In these circumstances, the licensed insurance intermediary cannot recommend any insurance product to the customer.

Documentation and signatures

- 6.7 A licensed insurance intermediary must properly document the information provided by the customer during the FNA process. The factors considered, evaluation, the recommendation(s) made by the licensed insurance intermediary, and reason(s) for such

recommendation(s) should also be documented as appropriate. When conducting the FNA, care should be taken to determine from whom, and in relation to whom, the relevant information should be collected (e.g. where the policy is to be held on trust, the assessment should be made based on the circumstances of the potential policy owner and/or the insured (e.g. settlor, beneficiary, protector or enforcer of the trust) rather than the trustee) and proper documentation should be maintained.

- 6.8 Before the issuance of a life insurance policy which requires an FNA to be conducted, an authorized insurer has the obligation to ensure that a proper and complete FNA has been conducted. In the case of business referred from a licensed insurance broker company, the authorized insurer is required to ensure that an FNA has been properly conducted by the licensed insurance broker company before accepting the application.
- 6.9 A completed FNA form must be signed and dated by the customer and the licensed insurance intermediary. Digital signatures or other similar signature verification technology are permitted. A completed and signed FNA form shall be valid for 12 months from the date the customer signs it. Customers should be reminded to inform the relevant authorized insurer or the licensed insurance intermediary of any material changes to the information provided during the FNA process. In the event that a customer purchases an additional insurance policy(ies) or coverage from the same authorized insurer or via the same licensed insurance intermediary within 12 months after an FNA form is completed, it is not necessary to conduct another FNA unless there are material changes in the circumstances of the customer or the purchase of the additional insurance policy or the additional coverage would result in a mismatch (see paragraphs 6.15 to 6.18 for further details on mismatch situations).

Matters to consider before making the recommendation

- 6.10 Licensed insurance intermediaries must have due regard to the relevant information provided by customers in an FNA before making any recommendation. Where a customer has other policy(ies) in force, whether with the same authorized insurer or with other authorized insurers as disclosed by the customer, the assessment should be carried out based on an aggregate of all the in force policies of the customer, rather than just the policy which is the subject of the application. An authorized insurer should have internal controls for identifying the accumulation of multiple policies it has in force for the same individual customer.

- 6.11 When assessing a customer's ability and willingness to pay insurance premium, the source of funds of the customer must be duly considered to ensure that the customer can afford the recommended product(s) throughout the entire duration of the premium payment term. For instance, where the premium payment term of the recommended policy will last beyond the target retirement age of the customer, the licensed insurance intermediary should assess whether the customer can afford the premium payment after his/her retirement. Where the customer has indicated that premium financing is intended to be used, the licensed insurance intermediary must take that into account when assessing a customer's ability and willingness to pay insurance premium.
- 6.12 Where an ILAS product may be the subject of a recommendation to a customer, information must be collected during the FNA process about whether the customer is able and willing to make his/her own decision to choose and manage different investment choices available under the ILAS product. If the customer has indicated that he/she does not want or is unwilling to choose or manage different investment choices, no ILAS product should be introduced or recommended to the customer. If the customer has indicated that he/she wants or is willing to choose or manage different investment choices with professional advice to be provided by the authorized insurer or licensed insurance intermediary, no ILAS product should be introduced or recommended to the customer unless such a service will be provided to the customer by the authorized insurer or the licensed insurance intermediary.

Provision of insurance options

- 6.13 For the purposes of GL15, whenever an ILAS policy is recommended to a customer, a participating policy that meets the customer's investment objective should also be provided to the customer as an option in accordance with the relevant requirement under GL15.
- 6.14 For the purposes of GL16, where, following an FNA process as required by this Guideline, a licensed insurance broker recommends an insurance product to a customer, the licensed insurance broker should also provide the customer with at least another insurance option from a different authorized insurer that meets the customer's needs and circumstances. The only exception to this would be where the licensed insurance broker concludes that there is no other insurance option available to the customer. In this exceptional situation, the licensed insurance broker should document its justification for reaching the conclusion that no such other insurance option is available.

Handling of mismatch cases

- 6.15 When a licensed insurance intermediary recommends an insurance product which does not meet the needs and circumstances of the customer based on the information collected during the FNA process, this is regarded as a “mismatch”. Authorized insurers, licensed insurance agencies and licensed insurance broker companies must put in place appropriate control measures to handle mismatch cases based on the principle of “fair customer treatment”. Where a mismatch exists and the licensed insurance intermediary makes a recommendation despite the mismatch, the licensed insurance intermediary is required to clearly explain the mismatch to the customer and why (despite the mismatch) the product is recommended to the customer. The licensed insurance intermediary must also document the details of the explanation.
- 6.16 In the case a recommendation has been made as described in paragraph 6.15, the authorized insurer should, during the underwriting process, review and assess the reasonableness of such recommendation and satisfy itself that the mismatch case has been handled in accordance with the control measures it has put in place, before accepting the application.
- 6.17 For the avoidance of doubt, a deviation between the recommended level of insurance protection and the level of insurance protection identified during the FNA process (i.e. where the recommended level is higher or lower than the level of protection identified in the FNA) is not considered a mismatch if the deviation has a justified, sound and reasonable basis (e.g. the deviation is because of the underwriting limit set by the authorized insurer, or is based on the health status of the customer, etc.). In such a case, the licensed insurance intermediary is required to clearly explain to the customer, and properly document, how the recommended level of insurance protection is determined. This requirement also applies where the recommended benefit/protection period deviates from the customer’s choice. Special care should be taken when the customer indicates a wealth accumulation-related objective, e.g. “saving up for the future”. In such a case, if the recommended product(s) is not able to achieve the target savings amount within the timeframe indicated by the customer, this should be considered as a mismatch unless the deviation from the target savings amount has a justified, sound and reasonable basis.
- 6.18 Authorized insurers should normally not accept an application with a mismatch in affordability (e.g. the customer has indicated a target premium term of 10 years but is recommended a product with a whole-of-life payment term). In rare cases where there are valid reasons for

such a recommendation, the licensed insurance intermediary is required to clearly explain the mismatch to the customer and why the product is recommended to the customer despite the mismatch (and properly document such explanation). For the avoidance of doubt, it is not considered a mismatch when the recommended insurance policy has a shorter premium payment term than the target premium term indicated by the customer.

Controls, Procedures and Record Keeping

- 6.19 Authorized insurers should develop and implement effective policies, controls and procedures to ensure compliance with the requirements in this Guideline, including compliance by authorized insurers' appointed licensed individual insurance agents and licensed insurance agencies. Proper training must also be provided by authorized insurers to ensure that these policies, controls and procedures are effectively communicated to their appointed licensed individual insurance agents and licensed insurance agencies. An authorized insurer should also set up a robust monitoring programme to ensure ongoing compliance with this Guideline.
- 6.20 Licensed insurance broker companies and licensed insurance agencies are also required to develop and implement effective policies, controls and procedures, and provide proper training, to ensure that they and their licensed technical representatives (broker) and licensed technical representatives (agent), as the case may be, comply with the requirements of this Guideline. They should also establish robust monitoring programmes to ensure ongoing compliance with this Guideline.
- 6.21 Proper records should be maintained by authorized insurers, licensed insurance broker companies and licensed insurance agencies in respect of the FNA including but not limited to the required documentation set out in this Guideline for inspection and review by the IA and other regulatory bodies.

7. Commencement

- 7.1 This Guideline shall take effect from 23 September 2019 ("Effective Date").

8. Transitional Provision

- 8.1 The IA recognizes that the authorized insurers and licensed insurance intermediaries to which this Guideline applies may require time to update their documentation, controls and processes to align with the requirements in this Guideline. A transitional period of 12 months from the Effective Date (i.e. from 23 September 2019 to 22 September 2020) will therefore apply in respect of the requirements in Section 6 of this Guideline (“Transitional Period”). The Transitional Period applies in respect of life insurance policies issued prior to the end of the Transitional Period.
- 8.2 During the Transitional Period, as an alternative to the provisions in Section 6 of this Guideline, authorized insurers which were carrying on long term business immediately prior to the Effective Date and their licensed insurance agents (including, in the case of licensed insurance agencies, the licensed technical representatives (agent) of the agencies) may continue to use the FNA forms and follow the FNA related policies and procedures which such insurers had in place immediately prior to the Effective Date, provided that such FNA forms, policies and procedures (prior to the Effective Date) complied with and (following the Effective Date) continue to comply with the following documents issued by the Hong Kong Federation of Insurers (“HKFI”):
- HKFI’s Initiative on Financial Needs Analysis (effective 1 June 2018);
 - HKFI’s Questions and Answers on ‘Initiative on Financial Needs Analysis’ (“FNA”) (effective 1 January 2016); and
 - HKFI’s Updated Requirements Relating to the Sale of Investment Linked Assurance Scheme (“ILAS”) to Enhance Customer Protection (effective 1 January 2016).
- 8.3 During the Transitional Period, licensed insurance broker companies registered immediately prior to the Effective Date with the Hong Kong Confederation of Insurance Brokers (“CIB”) and their licensed technical representatives (broker) may continue to use the FNA forms and follow the FNA related policies and procedures which such broker companies had in place immediately prior to the Effective Date, provided such FNA forms, policies and procedures (prior to the Effective Date) complied

with and (following the Effective Date) continue to comply with the following documents issued by the CIB:

- CIB’s Guidance Note on Product Recommendation for Long Term Insurance Business (effective 1 January 2016); and
- CIB’s Guidance Note on Conducting “Know Your Client” Procedures for Long Term Insurance Business (effective 1 January 2016).

8.4 During the Transitional Period, licensed insurance broker companies registered immediately prior to the Effective Date with the Professional Insurance Brokers Association (“PIBA”) and their licensed technical representatives (broker) may continue to use the FNA forms and follow the FNA related policies and procedures which such broker companies had in place immediately prior to the Effective Date, provided that such FNA forms, policies and procedures (prior to the Effective Date) complied with and (following the Effective Date) continue to comply with the following documents issued by the PIBA:

- PIBA’s Code of Conduct for Insurance Brokers Conducting Investment Linked Business (effective 1 March 2014);
- PIBA’s Guidance Note on Conducting Investment Linked Business (effective 1 January 2015);
- PIBA’s Circular dated 15 July 2015;
- PIBA’s Circular dated 22 December 2015;
- PIBA’s Circular dated 5 January 2016;
- PIBA’s Circular dated 28 June 2016; and
- PIBA’s Circular dated 28 September 2016.

8.5 The documents listed in paragraphs 8.2, 8.3 and 8.4 of this Guideline are hereby adopted solely for the Transitional Period.

September 2019

Appendix

Financial Needs Analysis (“FNA”) Template

The following questions form the basic content of the FNA form, authorized insurers or licensed insurance intermediaries shall, in accordance with the particular circumstances of the customers, add questions or modify the exact wording of the questions in compliance with requirements under paragraph 6.5 of this Guideline.

Notes to customer: This FNA form is to facilitate the identification of suitable insurance product(s) to meet your needs and circumstances. Please answer all questions in this form. Do NOT sign on this form if any questions are unanswered or have been crossed out. Do NOT sign on blank form. You need to inform us (the insurance company) if there is any substantial change of information provided in this form.

1. What are your objectives for seeking to purchase an insurance product? (tick one or more)
 - Financial protection against adversities (e.g. death, accident, disability etc.)
 - Preparation for health care needs (e.g. critical illness, hospitalization etc.)
 - Providing regular income in the future (e.g. retirement income etc.)
 - Saving up for the future (e.g. child education, retirement etc.)
 - Investment
 - Others (Please specify _____)

(The supplementary question to Q1 below is applicable only if “Investment” is chosen as one of the objectives in Q1 above)

To meet your “Investment” objective indicated above, how would you prefer to manage different investment options/investment choices, if available, under the insurance product? (tick one)

- I want to make my own decisions (without any professional advice to be provided by the authorized insurer and/or licensed insurance intermediaries) to choose and manage different investment options/investment choices, if available, under an insurance product, and I am willing to do it throughout the entire duration of the target benefit/protection period of an insurance product
- I want to make my own decisions (with professional advice to be provided by the authorized insurer and/or licensed insurance intermediaries) to choose and manage different investment options/investment choices, if available, under an insurance product, and I am willing to do it throughout the entire duration of the target benefit/protection period of an insurance product
- I do not want to choose or manage different investment options/investment choices, if available, under an insurance product

(For Q2 and Q3, a specific period/amount can be stated instead of ticking one of the boxes)

2. What is your target benefit/protection period/expected timeframe for meeting the target amount for insurance policy? (tick one)
 - Less than 1 year
 - 1-5 years
 - 6-10 years
 - 11-15 years
 - 16-20 years
 - More than 20 Years
 - Whole of life

3. Your ability and willingness to pay insurance premiums:
- a. What is your average monthly disposable income (i.e. after deducting the expenditure) from all sources (including income from liquid assets) in the past 2 years?
- Not less than HK\$ _____ ; or
 - In the following range:
 - less than HK\$10,000
 - HK\$10,000 - HK\$19,999
 - HK\$20,000 - HK\$49,999
 - HK\$50,000 - HK\$100,000
 - over HK\$100,000
- b. What percentage of your monthly disposable income (i.e. after deducting the expenditure) from all sources (including income from liquid assets) would you be able and willing to use to pay for the insurance premium (including your existing insurance policy(ies)) throughout the entire term of the insurance policy? (tick one)
- Less than 10%
 - 10% - 20%
 - 21% - 30%
 - 31% - 40%
 - 41% - 50%
 - More than 50%
- c. For how long are you able and willing to pay for an insurance policy? (tick one)
- 2-5 years 6-10 years 11-15 years 16-20 years
 - More than 20 Years (until target retirement age of ____)
 - Whole of life (including period after target retirement age of ____)
 - A single payment of not more than HK\$ _____