

Life Insurance Policy Replacement – What you need to know



Introduction

A life insurance policy¹, unlike a general insurance policy, involves a longer policy period. You will normally suffer losses if you surrender an existing life insurance policy, particularly during the early years of the policy period. To protect your interests, you should carefully compare your existing and the new insurance policies and assess whether the replacement of policy is in your best interests before making a decision.

This leaflet provides you with some useful guidance when you are approached for replacing your life insurance policies.

¹ This refers to a contract of insurance which is classed as long term business as defined under the Insurance Ordinance (Cap. 41).

Dos

1. **Ask yourself the following questions** before making a decision for replacing your existing life insurance policy:
 - (a) Why are you asked to replace your existing policy? Is it solely for your own benefits?
 - (b) Will the protection be continuous without interruption? A new policy usually has a waiting period before its full benefits apply (e.g. suicide is covered normally after a waiting period of one year from the issue date of the policy). Are you also sure that the application for your replacement policy will be accepted?
 - (c) Is the sum insured under the new policy not less than that under the existing policy?
 - (d) Are the returns and cash value offered by the new policy guaranteed or just projected non-guaranteed amounts? Projected high rates of returns are usually associated with high investment risks.
 - (e) When can the new policy offer bonus or dividend? Your existing policy may already have been operative for several years and may soon be distributing bonus or dividend.
 - (f) When will the “Incontestability Clause” be operative under the new policy? The “Incontestability Clause” under your existing policy may already have taken effect to protect your interests. That means the validity of the existing policy is incontestable unless there is, for example, fraud or non-payment of premiums.
 - (g) Is the type of the new policy the same as your existing one? If you intend to replace a traditional life insurance policy with an investment-linked life insurance policy (these two types of policies have different features to suit the needs of policy holders and the latter normally involves higher risks), particular consideration is necessary. Will you obtain any cash value upon surrendering your existing policy? In the first few years of a life insurance policy, the cash value is usually very small or insignificant compared to the premium paid.
 - (h) Will you be subject to a higher premium rate or a longer premium payment period under the new policy as a result of your older age and changes in your health condition? Replacing policy involves the application for a new policy, which will need to go through the underwriting process.
 - (i) Do you have an updated understanding of your existing policy? If not, you should contact the insurer of the existing policy or licensed insurance

intermediary to review it before considering replacing it.

2. **You should consider adding a rider or taking out a new policy in addition to your existing policy** if your intention is merely to increase the sum insured or extend the scope of your insurance coverage, but not to replace an existing policy.
3. **You should carefully examine the Important Facts Statement - Policy Replacement (“IFS-PR”) form before signing it.** According to the Guideline on Long Term Insurance Policy Replacement (GL27) issued by the Insurance Authority, an IFS-PR form should be completed by customer during the policy application when the new life insurance policy has been identified as a policy replacement or a potential policy replacement. This is to make the customer aware of the disadvantages which may arise from policy replacement together with the information and advice given by the licensed insurance intermediary, and make an informed decision as to whether or not to proceed with purchasing the new life insurance policy.
If you do not understand any of the paragraphs of the IFS-PR or the advice or information provided to you by licensed insurance intermediary is different from the information in the IFS-PR, please do not sign and do not proceed with replacing your existing life insurance policy.
4. **You should thoroughly examine the new policy after receiving it.** If you eventually consider the policy not suitable, you have the right to cancel it within the “cooling-off period”² and obtain a full refund of the insurance premium (less a market value adjustment where applicable).
5. **You should beware that licensed insurance intermediary may have a conflict of interests in persuading you to replace your existing policy.** You should, apart from listening to the advice of licensed insurance intermediary, approach the insurer of your existing policy for a balanced view.

² According to the Guideline on Cooling-off Period (GL29) issued by the Insurance Authority, 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.

Don'ts

1. **Don't just look at the premium amount in deciding to replace your insurance policy.** The difference in premiums normally reflects the difference in policy coverage and terms.
2. **Don't take the information contained in the promotional brochures as the terms and conditions of an insurance policy.** The promotional materials only generally summarize the provisions of an insurance policy. Wherever there is a discrepancy, the policy will prevail.
3. **Don't sign on a blank/incomplete form, for instance the IFS-PR or the proposal/application form.** You will be held responsible for the declaration or content of the document once you sign on it.
4. **Don't give the licensed insurance intermediaries cash or unnamed payee cheques; or deposit money into their personal bank accounts for premium settlement.** After payment of premiums, you should ask for a receipt.
5. **Don't blindly rely on the licensed insurance intermediaries.** You should personally check the policy details and enquire of the insurer concerned should you have any doubts.

Complaints

If you believe that you are misinformed or misled in the process of replacement and suffer losses, you may lodge a complaint to:

- The insurer issuing the new policy; or
- Insurance Authority.

Insurance Authority – North Point Office

23/F, 625 King's Road,
North Point,
Hong Kong

Tel : (852) 3899 9983

Fax : (852) 3753 3812

E-mail: enquiry@ia.org.hk / complaints@ia.org.hk

Website: www.ia.org.hk

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