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To: Chief Executives of all authorized insurers carrying on long term insurance business, Responsible Officers of all licensed insurance broker companies and licensed insurance agencies carrying on long term insurance business, Chief Executives of all authorized institutions, Responsible Officers of all MPF principal intermediaries

Dear Sirs,

Findings of Mystery Shopping Programme on Selling Practices in respect of Qualifying Deferred Annuity Policies and Tax-deductible Voluntary Contributions in Hong Kong

As previously announced in the joint circular of 29 December 2021, the Insurance Authority (IA), the Mandatory Provident Fund Schemes Authority (MPFA) and the Hong Kong Monetary Authority (HKMA) (together “the Regulators”) had jointly conducted a mystery shopping programme (MSP) earlier in 2022 to help understand the selling practices of intermediaries¹ in respect of Qualifying Deferred Annuity Policies (QDAP) and Mandatory Provident Fund Tax-deductible Voluntary Contributions (TVC) in Hong Kong. A service provider was engaged to undertake the MSP². The key objectives of the MSP were to facilitate the Regulators to gain insights into how QDAP and TVC are being marketed as well as to identify areas for improvement and good practices for sharing with the industry as appropriate. The Regulators also look forward to raising the industry’s awareness and promoting a sound culture relating to the sale and marketing of QDAP and TVC among insurers and intermediaries.

The MSP covered a number of areas, including the know-your-customer procedures, financial needs analysis (as applicable to QDAP), suitability of recommendations, product and risk disclosure. This circular aims to share the key findings of the MSP and reiterate the importance of complying with all applicable regulatory requirements.

Save for certain aspects and some isolated samples which showed room for improvement, the intermediaries were generally in compliance with the relevant regulatory requirements according to the MSP findings. Intermediaries should ensure that the product introduced or recommended is appropriate or suitable for the customer’s circumstances, and provide accurate

¹ “Intermediaries” refers to-

- (a) licensed insurance intermediaries as defined in section 2(1) of the Insurance Ordinance;
- (b) registered intermediaries as defined in section 2(1) of the Mandatory Provident Fund Schemes Ordinance;
- and
- (c) authorized institutions as defined in section 2(1) of the Banking Ordinance.

² The service provider engaged mystery shoppers (“shoppers”) to pose as potential customers of the intermediaries under review. The shoppers did not proceed to the application stage in this MSP.

and fair information of QDAP and TVC to the customer. Details of the findings in respect of the sale of QDAP and TVC are set out in **Annex I** and **Annex II** respectively. The industry should take into account the findings and review their policies and internal controls in respect of sales process, staff training, compliance checking and other relevant internal controls, so as to adhere to the principles of treating customers fairly and acting in customers' best interests.

The Regulators will take into account the findings of the MSP in formulating supervisory plans and related measures. The Regulators will also follow up the findings with the insurers and/or intermediaries concerned as appropriate and require them to take actions to address the issues noted as applicable. The Regulators will continue to monitor the industry's compliance with the relevant regulatory requirements in their on-going supervision.

Yours faithfully,

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