保險業監管局
Insurance Authority

HONG KONG MONETARY AUTHORITY
香港金融管理局

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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, and Chief Executives of all authorized institutions

Dear Sirs,

Joint inspection on the use of premium financing to take out long term insurance policies in Hong Kong

The Insurance Authority (**"IA"**) and the Hong Kong Monetary Authority (**"HKMA"**) carried out a joint inspection exercise on premium financing activities in late 2020. The joint inspection, being the first of its kind conducted by the IA and the HKMA together, covered authorized insurers carrying on long term insurance (**"insurers"**) and licensed insurance intermediaries (including banks) carrying on regulated activities in long term insurance (**"insurance intermediaries"**) in Hong Kong.

Premium financing is an insurance funding arrangement whereby a customer purchases a life insurance policy and finances the payment of the premiums under the policy using a loan facility provided by a lender (usually a bank). The customer assigns the life insurance policy to the lender as collateral for the loan. In entering into a premium financing arrangement, a customer incurs the costs to service the loan facility (i.e. interest) in addition to the premium and fees under the life insurance policy, and is exposed to risks associated with the loan facility which may adversely affect the insurance coverage and benefits to be received under the policy.

The areas covered by the joint inspection included:

- suitability and affordability assessment;
- distribution and selling process;
- disclosure of risks and other important matters; and
- processing of policy services such as assignment and maturity.

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This circular serves to share the key observations of the IA and the HKMA from the joint inspection and highlights certain areas of concern which we propose to address by providing further detail on the expectations with regards to compliance with the relevant regulatory standards in order to improve customer awareness, protection and outcome.

The insurers and intermediaries inspected were generally able to comply with the minimum regulatory requirements on risk disclosure, including the requirements set out in the Guideline on Underwriting Long Term Insurance Business (other than Class C Business) ("**GL16**") issued by the IA. We consider, however, that improvements could be made on the granularity and adequacy of such disclosure in order to raise customer awareness of the key risks and other matters associated with premium financing arrangements.

In respect of affordability assessments, we found that the impact of the use of premium financing on the customer's ability to afford the life insurance policy was sometimes not adequately taken into consideration as required under the Guideline on Financial Needs Analysis ("**GL30**") issued by the IA. In certain cases, the asset proof provided by customers did not match with the liquid assets disclosed during the financial needs analysis process. This cast doubt on the ability of the customer to afford the life insurance policy with premium financing. In particular, it was questionable whether such customers had sufficient financial resources (without surrendering the proposed insurance policy or any existing insurance policies) to repay the loan under the premium financing facility in full upon request of the lenders.

It was also observed that the use of premium financing was sometimes not appropriately taken into consideration by insurance intermediaries in the course of carrying on their regulated activities, falling short of the expectations on insurance intermediaries in treating customer fairly and providing accurate and adequate information to customers to enable customers to make informed decisions as stipulated under General Principles 2 and 5 of the Code of Conduct for Licensed Insurance Agents and Code of Conduct for Licensed Insurance Brokers. As such, customers who were contemplating the use of premium financing to finance their purchase of life insurance policies may not be sufficiently informed about the potential impact of the financing arrangements on the benefits and the insurance protection under the policies.

Details of the observations of the two regulators can be found in the **Annex** and the relevant findings have been shared with individual insurers and insurance intermediaries for appropriate follow-up actions (where applicable).

In view of these findings, the IA and the HKMA will engage the industry and relevant stakeholders to clarify the expected standards for insurers and insurance intermediaries when carrying on insurance business and regulated activities involving premium financing.

For enquiries about the contents of this circular, please contact:

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Yours faithfully,

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c.c. The Hong Kong Federation of Insurers
The Hong Kong Confederation of Insurance Brokers
Professional Insurance Brokers Association