

**GUIDELINE ON UNDERWRITING LONG  
TERM INSURANCE  
BUSINESS (OTHER THAN CLASS C  
BUSINESS)**

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## **1. Introduction**

- 1.1 This Guideline is issued pursuant to section 133 of the Insurance Ordinance (Cap. 41) (“the Ordinance”) taking into account the Insurance Core Principles, Standards, Guidance and Assessment Methodology (“ICP”) promulgated by the International Association of Insurance Supervisors (“IAIS”). Specific references are:
- (a) section 4A of the Ordinance stipulates that the Insurance Authority (“IA”)’s function is to protect existing and potential policy holders. Section 4A(2)(c) states that the IA shall promote and encourage the adoption of proper standards of conduct, and sound and prudent business practices by authorized insurers; and
  - (b) as stipulated in ICP 19, the conduct of the business of insurance should ensure that customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied. The conduct of insurance business should help to strengthen public trust and consumer confidence in the insurance sector.
- 1.2 This Guideline applies to all authorized insurers underwriting long term business (other than Class C business).
- 1.3 Save as otherwise expressly stated, terms defined in the Ordinance and its subsidiary legislation shall have the same meaning when used in this Guideline.

## **2. Relevant Regulatory Documents**

- 2.1 Where appropriate, this Guideline should be read in conjunction with other relevant codes/circulars/guidelines issued by the IA or other regulatory bodies, including but not limited to the following<sup>1</sup>:
- (a) Guideline on Benefit Illustrations for Long Term Insurance Policies (GL28) issued by the IA;
  - (b) Guideline on Financial Needs Analysis (GL30) issued by the IA;
  - (c) Guideline on Governance and Management of Fund(s) of Participating Business (GL34) 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) all relevant rules, codes, circulars and guidelines administered or issued by Hong Kong Monetary Authority.

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<sup>1</sup> The list is not exhaustive and may be subject to changes from time to time. Authorized insurers have the responsibility to ensure compliance with all the relevant requirements with due regard to their own circumstances.

### **3. Purpose**

- 3.1 Both IAIS and the global insurance industry have placed increasing emphasis on fair treatment of customers. Fair treatment of customers encompasses:
- (a) developing, marketing and selling products in a way that pays due regard to the interests and needs of customers;
  - (b) providing customers with information before, during and after the point of sale that is accurate, clear, and not misleading;
  - (c) minimizing the risk of sales which are not appropriate to customers' interests and needs;
  - (d) ensuring that any advice given is of a high quality;
  - (e) dealing with customer claims, complaints and disputes in a fair and timely manner; and
  - (f) protecting the privacy of information obtained from customers.
- 3.2 This Guideline sets out the requirements for authorized insurers underwriting long term insurance business (other than Class C business). In assessing whether the requirements have been duly followed by authorized insurers, the IA will consider the substance and nature of the matters involved. The name or form of the arrangements adopted by individual authorized insurers would be irrelevant.

### **4. Duties of the Board, the Controller and the Appointed Actuary**

- 4.1 It is the duty of the Controller, as specified under section 13A(12) of the Ordinance, to ensure that requirements set out in this Guideline are observed throughout the life cycle of all long term (except Class C) insurance policies. It is also the duty of the Board to maintain general oversight over the implementation of measures in compliance with this Guideline and is ultimately responsible for ensuring fair treatment of customers.
- 4.2 It is a reasonable expectation for policy holders to expect to receive at least a fair proportion, if not all, of the non-guaranteed part of the illustrated benefits. It is the duty of the Controller, the Appointed Actuary and the Board to ensure that such policy holders' reasonable expectation is met.
- 4.3 It is a continuing duty of the Appointed Actuary to advise the Board of his or her interpretation of policy holders' reasonable expectations. For instance, in the context of the provision of benefit illustrations, it is the duty of the Appointed Actuary to adopt reasonable assumptions, as well as to provide regular and up-to-date assessment of such assumptions to the Board for making suitable amendments. When a significant change of the underlying assumptions is likely to take place, the Appointed Actuary should take all reasonable steps to ensure that the Board appreciates the implications for the reasonable expectations of the

policy holders.

- 4.4 Any attempt to circumvent the requirements prescribed in this Guideline would be regarded as acting in bad faith. In the case of Controllers, this may affect the “fit and proper” assessment under sections 8(2) and 13A(4) of the Ordinance. In the case of Appointed Actuaries, this may constitute non-compliance with professional standards under section 15C of the Ordinance, and may render the incumbent not acceptable to the IA under section 15AAA(2) of the Ordinance.

## **5. Product Design**

- 5.1 Authorized insurers should develop, market and sell products with due regard to the interests and needs of customers. During the product design stage, authorized insurers should carry out a diligent review to ensure that the product meets the “fair treatment of customers” principle, including:
- (a) delivery of the reasonably expected benefits;
  - (b) sustainability of the product;
  - (c) needs and affordability of the target customers;
  - (d) risks of the product; and
  - (e) distribution channels for the product.
- 5.2 When performing the diligent review mentioned above during the product design stage, authorized insurers are required to take a holistic view of all the relevant factors. For example, a product with complex features may not be suitable for distribution through the online channel, where advice to customers cannot be given during the sale process.
- 5.3 Authorized insurers are required to monitor the products after launch to ensure that they continue to meet the needs of the target customers, assess the performance of the various distribution channels with respect to sound commercial practices, and take the necessary remedial actions where appropriate.
- 5.4 In considering whether the design of a product meets the requirements of this Guideline and the “fair treatment of customers” principle, authorized insurers are required to look at all relevant factors in their totality, including the product features, insurance elements, added value/services to customers, fees/charges, surrender penalties (where applicable), remuneration structure etc.
- 5.5 Fees and charges (including charging basis, level of charges, applicable period etc.), where applicable, to be paid by the customers should be fair, commensurate with the insurance protection offered by the product concerned, and reflect the services/added value of the authorized insurer.

- 5.6 During product design, the determination of pricing assumptions should be based on the best estimate assumptions. For the guidance and considerations in setting best estimate assumptions, the Appointed Actuary should follow AGN 9 on Best Estimate Assumptions issued by the ASHK.

## **6. Provision of Adequate and Clear Information**

- 6.1 Authorized insurers should provide customers with information before, during and after the point of sale that is accurate, clear, and not misleading.
- 6.2 The development of insurance products and distribution strategies should include the use of adequate information to assess the needs of different customer groups.
- 6.3 Authorized insurers should offer a product that delivers the reasonably expected benefits.
- 6.4 Authorized insurers should take reasonable steps to ensure that customers are given timely, clear and adequate information about an insurance product, enabling them to make informed decisions.
- 6.5 Product information (e.g. product brochure and benefit illustration) should be bilingual<sup>2</sup>, clear and succinct, with the use of plain language and legible font size, and should be easily understandable by average customers. To facilitate understanding by customers, authorized insurers should avoid using technical or industry terminology.
- 6.6 Major product features and key risks to customers should be clearly disclosed in the product brochure and marketing materials, including the areas (where applicable) below:
- (a) key exclusions alongside description of policy coverage;
  - (b) factors leading to premium adjustments made by the authorized insurer and the frequency and timing of such adjustments. For those products with premium adjustment features within the premium payment term, they cannot be labeled as “level premium”;
  - (c) minimum premium payment term and the consequence of failure to settle premiums due, including loss of coverage, surrender penalty and financial loss incurred by the policy holder;
  - (d) conditions of making a decision to terminate the policy by the authorized insurer;
  - (e) factors for the determination of market value adjustment made by the

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<sup>2</sup> For the avoidance of doubt, the English and Chinese versions of the product documents can be separated, but BOTH must be available to the customers. Authorized insurers should ensure consistency between English and Chinese versions of all the product documents (including product brochure, benefit illustration, policy contract, etc.).

- (f) authorized insurer on premiums paid within cooling-off period; and adverse impact of inflation (i.e. where the actual rate of inflation is higher than expected, and the policy holder might receive less in real terms even if the authorized insurer meets all of its contractual obligations).
- 6.7 For products with policy loan facility, authorized insurers should provide policy holders with information about the terms of the loan (including interest rate to be charged) before the loan is drawn down. For products with automatic policy loan facility, policy holders should be immediately notified that a loan has been first drawn down in accordance with the policy provisions and the interest rate being charged. Whenever there are changes to the policy loan interest rate, policy holder should be notified within a reasonable period before the new interest rate is effective. For ongoing disclosure, regular account statements to be sent to policy holders should contain information about the interest rate being charged, opening and ending loan balance as well as the interest amount charged in the period, with the relevant information highlighted to draw policy holders' attention.
- 6.8 For policies to be used as collateral assignment (e.g. for premium financing), authorized insurers should ensure that the policy holder fully understands the relevant risks and limitations (e.g. interest rate risk, rights that the assignee may exercise on the policy on behalf of the policy holder, risk of release of information to the assignee).
- 6.9 Authorized insurers have the sole responsibility of ensuring accuracy of the product information vis-a-vis the policy provisions, with warning statements and other tools (e.g. FAQs) where appropriate to increase customers' awareness.

## **7. Suitability Assessment**

- 7.1 Authorized insurers should obtain adequate information from customers for assessing their insurance demands and needs, before giving advice or concluding a contract. The information from customers will vary according to the type of product but will typically include:
  - (a) financial knowledge and experience;
  - (b) needs, priorities and circumstances;
  - (c) ability to afford the product; and
  - (d) risk profile.
- 7.2 Customers' needs should be properly assessed through the Financial Needs Analysis ("FNA") (where appropriate) set out in the Guideline on Financial Needs Analysis (GL30). Insurance policies should not be marketed to customers before their needs are properly analyzed.

- 7.3 Customers that have indicated their insurance needs should be presented with different options that are available to meet their specific needs and financial circumstances.
- 7.4 For insurance products with long term contribution commitment or investment elements, suitability assessment should include assessing the premium payment horizon, with due regard to the financial circumstances, planned retirement age etc. of customers.
- 7.5 The suitability assessment should be carried out whenever there are relevant changes to the circumstances of customers.
- 7.6 Authorized insurers have the duty to verify all available information and assess whether a particular product is suitable for the needs of customers during the underwriting process.
- 7.7 Authorized insurers should endeavour to reduce the risk of selling products that do not meet the needs of customers by:
- (a) strengthening the training of licensed insurance intermediaries;
  - (b) assessing the affordability and suitability of products for customers during the underwriting process based on available information; and
  - (c) providing tools for licensed insurance intermediaries to facilitate the recommendation of suitable products to customers.

## **8. Advice to Customers**

- 8.1 Authorized insurers and licensed insurance intermediaries should act with due skill, care and diligence when dealing with customers. They should have controls and processes in place to achieve this outcome, including appropriate measures to ensure that their employees, agents and technical representatives meet high standards of ethics and integrity.
- 8.2 Where advice is given to a customer, it should go beyond simply providing product information and constitute a personalized recommendation that takes into account the disclosed needs and circumstances of the customer in relation to the product.
- 8.3 After a customer has considered the options and is preparing to enter into an insurance contract, he/she should be properly apprised of all product features, including fees and charges (where applicable), surrender penalties (if any) as well as the product risks, key exclusions, 21-day cooling-off period etc.
- 8.4 A flowchart of the process encompassing completion of the FNA (if applicable),



confirmation of needs, comparison of different options (where FNA has been performed), and explanation of the key product features/exclusions is at the **Annex**.

## **9. Appropriate Remuneration Structure**

- 9.1 Authorized insurers should ensure that the remuneration structure of licensed insurance intermediaries do not create misaligned incentives for them to engage in mis-selling, aggressive selling, fraudulent acts or money laundering activities.
- 9.2 Indemnity commission or any standing arrangements that offer advance payment of commission is strictly prohibited. In other words, authorized insurers should only pay commission on an earned basis.
- 9.3 Since misconduct, such as proven cases of mis-selling, aggressive selling, fraud and money laundering, often surfaces after the clawback period, authorized insurers should install a clawback mechanism to fully recover all commission paid in such proven cases.

## **10. Ongoing Monitoring**

- 10.1 Authorized insurers and licensed insurance intermediaries should take all reasonable steps to identify, avoid and properly manage any conflicts of interest.
- 10.2 Making appropriate disclosures or obtaining informed consent from customers are helpful but have inherent limitations. Where conflicts of interest cannot be managed satisfactorily, authorized insurers or licensed insurance intermediaries should decline to act.
- 10.3 Authorized insurers should take all reasonable steps and put in place a proper mechanism to identify, avoid and properly manage conflicts of interest on an ongoing basis.
- 10.4 Authorized insurers are required to:
  - (a) service a policy appropriately until all contractual obligations have been satisfied; and
  - (b) disclose to the policy holder any contractual changes during the contract lifespan and other useful information depending on the type of product procured.
- 10.5 Authorized insurers should maintain the communication with policy holders at least annually as an integral part of expectation management (e.g. projections for

non-guaranteed benefits in anniversary statements).

- 10.6 Authorized insurers should take active steps to detect market response and experience (e.g. pattern of public complaints, lapsation rate) after launch.

## **11. Post-sale Control**

- 11.1 Authorized insurers and licensed insurance intermediaries should establish, implement and monitor controls and procedures to achieve fair treatment of customers.
- 11.2 For the protection of vulnerable customers<sup>3</sup>, authorized insurers are required to make audio-recorded post-sale confirmation calls if long term insurance products (except term insurance) or products with investment risks are involved. Authorized insurers are required to conduct post-sale confirmation calls within 5 working days of the date of policy issuance to ascertain that the customers understand the product procured and associated risks of the product, and are fully aware of their contractual rights and obligations.
- 11.3 Authorized insurers are required to:
- (a) appoint a separate quality assurance team to make the post-sale confirmation calls;
  - (b) use their best endeavours to make the post-sale confirmation calls by reaching out to customers at different times of the day and different days of the week; and
  - (c) if post-sale confirmation calls are unsuccessful, send a confirmation letter alongside an email/SMS alert to draw the attention of the customers to the importance of the confirmation letter.
- 11.4 For customers who are visitors or who may be difficult to reach via post-sale confirmation calls, authorized insurers are encouraged to adopt alternative measures such as on-site recording at the service centre or immediate “dial-in” to or from the call centre.
- 11.5 Authorized insurers should collect sufficient information to enable them to identify vulnerable customers.
- 11.6 Authorized insurers are required to put in place an effective mechanism to identify possible cases of licensed insurance intermediaries abetting customers to evade the control measures, such as an abnormally high rate of unsuccessful post-sale calls.

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<sup>3</sup> A vulnerable customer is a person aged 65 or older, whose education level is “primary level” or below, or who has no regular source of income.

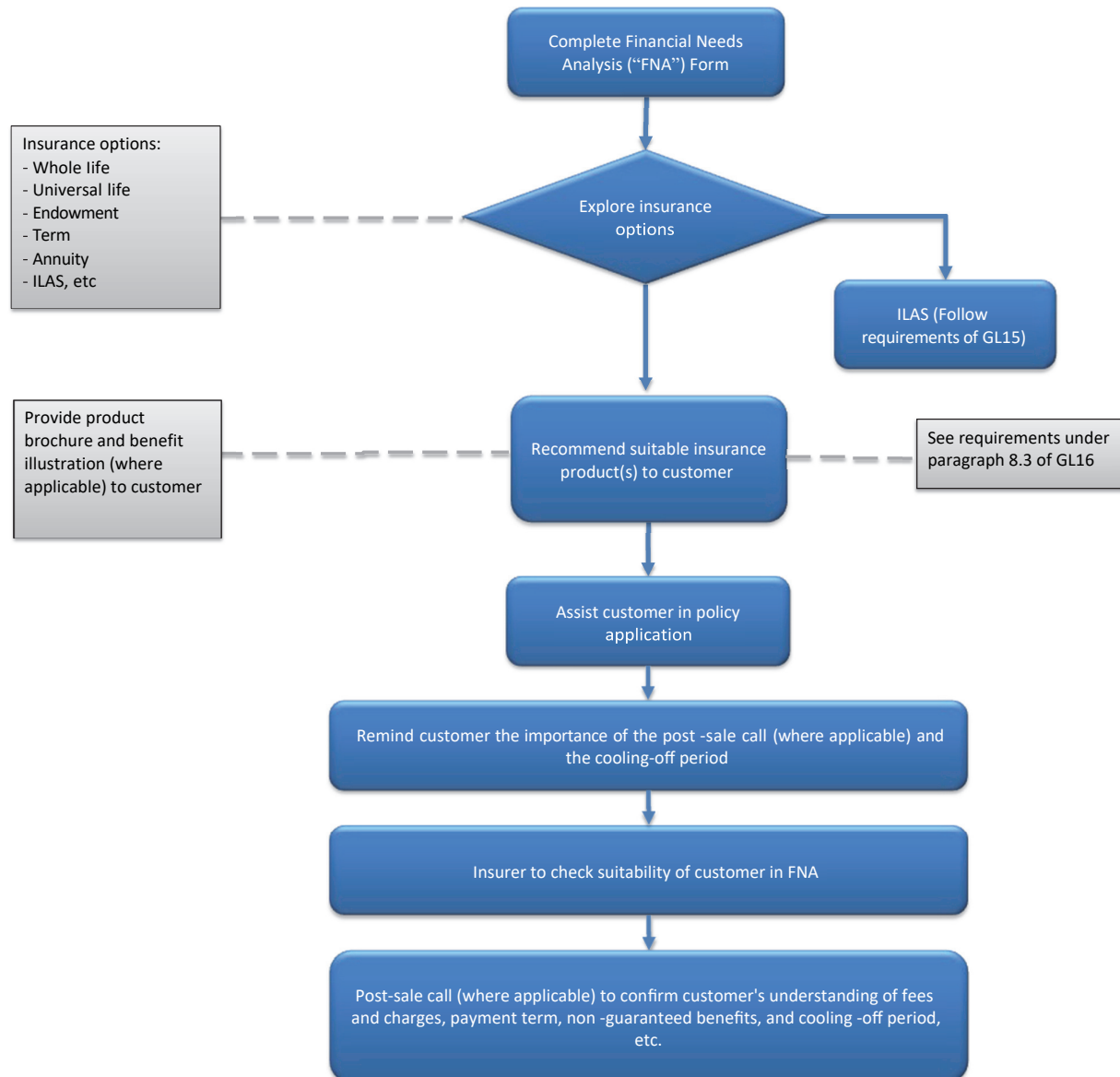
- 11.7 Authorized insurers should have the internal controls and monitoring, which include retaining policy documents, records of the post-sale confirmation calls, confirmation letters and email/SMS alerts, as well as related control reports for quality control and monitoring.

## **12. Commencement**

- 12.1 This revised Guideline supersedes the previous version of this Guideline, and shall take effect from 31 March 2026, except that compliance with section 4 of the Guideline on Governance and Management of Fund(s) of Participating Business (GL34) as referred to in paragraph 2.2 of Appendix 2, shall take effect from 30 June 2026.

**February 2026**

### Selling Process of Non-linked Insurance Products



### **Requirements Applicable to Participating Policies**

1. For the purpose of this Guideline, participating business has the meaning given by section 21B(11) of the Ordinance.
2. Expectations and considerations relating to the disclosure of participating policies<sup>4</sup> are elaborated in this Appendix. It should be read in conjunction with other relevant codes, circulars or guidelines issued by the IA.
3. **Provision of Benefit Illustration**
  - 3.1 The purpose of benefit illustration is to provide customers with projected future performance which is broken down into guaranteed and non-guaranteed benefits, showing the benefits that may reasonably be expected in each policy year, based on specified assumptions and conditions.
  - 3.2 High and low return scenarios must be provided in the benefit illustration to show the range of projected future performance and a wider range of scenarios is expected for investment strategy with higher volatility.
  - 3.3 The benefit illustration should show the annual dividend (or reversionary bonus) and terminal dividend (or terminal bonus) separately, together with other information for customers to understand the implications on dividend/bonus if there are changes in, say, the underlying assumptions (e.g. the terminal dividends/bonuses may be more volatile than annual dividends/bonuses upon change in return assumption).
  - 3.4 Authorized insurers should follow the requirements outlined in the Guideline on Benefit Illustrations for Long Term Insurance Policies (GL28).
4. **Disclosure of Non-Guaranteed Benefits**
  - 4.1 Apart from benefit illustrations, an authorized insurer is required to make the

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<sup>4</sup> Authorized insurers should refer to the Guideline on Governance and Management of Fund(s) of Participating Business (GL34) regarding the requirements on governance and corporate policy relating to applicable participating funds (as defined under paragraph 2.1 of GL34).

following disclosures:

- (a) at the point of sale:
  - (i) key factors that will significantly affect the determination of dividends/bonuses, including but not limited to:
    - (aa) claims – mortality and morbidity experience;
    - (bb) interest rate – interest income, outlook of interest rates and effects of capital gains and losses;
    - (cc) market risks – types of market risks (including emerging or evolving risks) that could adversely impact investment outcome significantly;
    - (dd) expenses – direct expenses (such as commission, underwriting, issuance and maintenance costs) and indirect expenses (such as general overheads); and
    - (ee) persistency – lapsation rate and surrender experience; and the corresponding impact on investments;
  - (ii) investment strategy (e.g. target asset and currency mix / geographical allocation / use of derivatives and securities lending), asset classes (e.g. equities, bonds, deposits) and concentration (e.g. sovereign and corporate bonds, high yield bonds);
  - (iii) the objectives of the investment strategy;
  - (iv) philosophy of determining dividends/bonuses (in the product brochure) which is also available on the authorized insurer's website;
  - (v) fulfillment ratios (which represents the average ratio of non-guaranteed dividends/bonuses declared against amounts illustrated at the point of sale) for each product series which has new policies issued since 2010 and in-force policies during the reporting year, unless otherwise agreed by the IA, and the website where these fulfillment ratios can be found;
  - (vi) appropriate details of fulfillment ratios based on the benefits associated with each product type, as follows:
    - (aa) annual dividends (including accumulated dividends and interest);
    - (bb) reversionary bonus (including the cash value of accumulated reversionary bonus); and
    - (cc) terminal dividend/bonus (including the payout of a terminal dividend or cash value of a terminal bonus); and
  - (vii) a statement that historical trend is not an accurate indicator of future performance;

- (b) during the policy lifespan:
  - (i) maintain timely communication with policy holders at least annually (or more frequently upon anticipated changes to benefits) on both actual non-guaranteed benefits declared for the year and a refreshed up-to-date in-force re-projection illustration reflecting the latest conditions and outlook to manage expectations of policy holders; and
  - (ii) inform policy holders of any change of dividends/bonuses (or philosophy of their determination) by written communication or information contained in the annual statements with explicit reasons leading to the change;
- (c) for premium offset options with the use of non-guaranteed dividends/bonuses to pay a portion of future premiums:
  - (i) present scenario analysis covering, especially the situation where the premiums cannot be fully offset by declared dividends;
  - (ii) remind customers that they have contractual obligation to make timely premium payment for the prescribed policy lifespan, while “vanish”, “vanishing premium” or similar terminologies suggesting that the policy has been fully paid up should not be used;
  - (iii) where declared dividends are used to pay premiums for medical riders, alert customers the risk brought about by medical inflation and premium increase, and/or dividend fluctuations and update them regularly through effective means; and
  - (iv) if the product offers a variety of premium payment terms, mention the shorter payment term only as an alternative, warn customers that sustainability of the premium offset option depends on dividend payment which is not guaranteed, that they may have to resume premium payments as a result, and that other factors including dividend withdrawals, change in dividend options and addition of optional policy benefits should not be overlooked;
- (d) for the illustration of withdrawal option or partial surrender option, a warning that withdrawal or partial surrender will affect future benefits and the disclosure to ensure that the customers fully understand the risk involved (e.g. illustrated withdrawal amounts, which depend on non-guaranteed dividends, might not be sustainable).

**Requirements Applicable to Universal Life  
Policies**

**1. Introduction**

- 1.1 For the purpose of this Guideline, universal life business has the meaning given by rule 2 of the Insurance (Valuation and Capital) Rules (Cap. 41R).

**2. Governance of Universal Life Business**

- 2.1 Authorized insurers should establish governance frameworks on the determination of crediting interest rates, cost of insurance charges, fees and charges, as well as other discretionary benefits. These frameworks should be clearly documented, approved by the Board and made available to the IA upon request.
- 2.2 In addition to complying with this Guideline, authorized insurers should apply paragraphs 3.1, 3.2, 3.5, 3.6 and 3.7, and also section 4 of the Guideline on Governance and Management of Fund(s) of Participating Business (GL34), with modifications for the universal life context where relevant and applicable, to the governance and corporate policies in relation to universal life business referred to in paragraph 2.1 of this Appendix.

**3. Provision of Benefit Illustration**

- 3.1 The purpose of benefit illustration is to provide customers with projected future performance, including the total benefits payable under different scenarios. The illustration should show the benefits that may reasonably be expected in each policy year, based on specified assumptions and conditions.
- 3.2 In the benefit illustration, all fees and charges (current and maximum scales, if applicable) should be shown clearly, with an explicit message that the current fees and charges could be subject to change.
- 3.3 Authorized insurers should follow the requirements outlined in the Guideline on Benefit Illustrations for Long Term Insurance Policies (GL28).



#### **4. Disclosure of Non-Guaranteed Benefits**

- 4.1 Authorized insurers should follow paragraphs 4.1(a) and 4.1(b) of Appendix 1 on disclosure of non-guaranteed benefits with suitable modifications for the universal life policies context, except for paragraph 4.1(a)(v) and 4.1(a)(vi) where the related disclosures are not required. For example, terminology may be modified from “dividend/bonus” to “crediting interest rate”.
- 4.2 Authorized insurers should disclose on their websites the historical crediting interest rates for each product series which has new policies issued since 2010 and in-force policies during the reporting year, unless otherwise agreed by the IA. Customers should be informed of the relevant website address.
- 4.3 In addition, key risks applicable to universal life policies (including fees and charges, lapsation risk due to zero account value etc.) and different crediting interest rates for each product series (if applicable) should be disclosed.