

Interpretation Notes
Guideline on Financial Needs Analysis (GL30)

The Insurance Authority (“IA”) issues these Interpretation Notes with the aim of providing further guidance to authorized insurers and licensed insurance intermediaries in respect of the Financial Needs Analysis (the “FNA”) requirements under the Guideline on Financial Needs Analysis (GL30) (the “Guideline”).

These Interpretation Notes are not intended to be a comprehensive guide and do not constitute legal advice. Authorized insurers and licensed insurance intermediaries are advised to seek professional legal advice if they have any questions relating to the application or interpretation of the relevant provisions of the Guideline.

These Interpretation Notes do not have the force of law and should not be interpreted in a way that would override the provision of any law. The IA reserves the right to review and update these Interpretation Notes from time to time. Unless otherwise specified, words and expressions in these Interpretation Notes shall have the same meanings as given to them in the Guideline.

Section 6 – Detailed Requirements for the FNA	
<i>Exempted products</i>	
Q1	Are all refundable insurance policies exempted from the FNA requirements?
A1	<p>Only refundable insurance policies not having a substantial savings component are exempted from the FNA requirements. The rationale for exempting these policies from the FNA requirements is that such policies are typically designed to solely provide the policy holders with the relevant risk protection rather than wealth accumulation, and the premiums payable under such policies are normally at a level affordable to an ordinary person.</p> <p>In other words, if the premiums payable for a refundable policy are at a level that would exceed the level affordable to an ordinary person, or the amounts to be accumulated under the policy would be substantial (i.e. having a wealth accumulation) for an ordinary person, the policy will be considered as having a substantial savings component and a proper FNA process should be conducted.</p> <p>When designing refundable insurance policies, authorized insurers are reminded to comply with the relevant requirements under GL16 which require them to undertake a diligent review during the product design stage to ensure that each of their products shall meet the “fair treatment of customers” principle, including the needs and affordability of the target customers.</p>
<i>Information to be collected</i>	
Q2	Paragraph 6.8 of the Guideline specifies that an authorized insurer is required to ensure that an FNA has been properly conducted by the licensed insurance broker company before accepting the application in the case of business referred from a licensed insurance broker company. Can an authorized insurer rely on the declaration from the licensed insurance broker company that an FNA has been properly conducted?

A2	<p>As a general principle, it is the authorized insurer’s responsibility to ensure that a proper and complete FNA has been conducted by a licensed insurance broker in accordance with the Guideline. It should not solely rely on the declaration of compliance from a licensed insurance broker (who is acting as an agent of a policy holder or potential policy holder).</p> <p>In the case of business referred from a licensed insurance broker company, an authorized insurer should self-tailor and have in place an adequate process whereby it can obtain satisfaction that an FNA has been properly conducted by the relevant licensed insurance broker company before the authorized insurer accepts the policy application.</p>
Q3	<p>Paragraph 6.12 of the Guideline specifies that 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. Can the provision of fund related information (e.g. fund fact sheet, fund prospectus of the underlying funds, sample portfolios from independent fund research companies etc.) be considered as the provision of “professional advice”?</p>
A3	<p>The mere passing on of fund related information issued by the relevant fund manager(s) does not constitute “professional advice”. Professional advice denotes providing guidance to customers on investment choices and making recommendations to the customer on which investment choices to select. Accordingly, if a customer has denoted in the FNA a willingness to choose or manage different investment choices <u>but only with professional advice</u> to be provided by the authorized insurer or licensed insurance intermediary, then the relevant authorized insurer or licensed insurance intermediary must be in a position to (and must) provide that professional advice service, otherwise no ILAS product should be introduced or recommended to the customer.</p> <p>If authorized insurers and/or licensed insurance intermediaries are to provide the customer with that service, then they must ensure that they have the capability to provide such service and that adequate and ongoing updated training has been provided/obtained for this purpose. Authorized insurers, licensed insurance agencies and licensed insurance broker companies should have in place controls to ensure licensed individual insurance agents/ licensed technical representatives (agent)/ licensed technical representatives (broker) have adequate ongoing training and capability for this purpose, and that ILAS products are not being introduced or recommended where the customer indicates he/she wants professional advice but no professional advice service is offered by the authorized insurer or licensed insurance intermediary as the case may be.</p> <p>For the avoidance of doubt, if the customer did not denote in the FNA that “investment” is an objective he/she has in purchasing an insurance product, no ILAS product should be introduced or recommended to the customer.</p>

Q4	<p>Instead of asking a customer to provide the amount of disposable income, could the customer be asked to provide details about his/her income (including income from liquid assets) and his/her expenditure (including premiums for existing insurance policies) in order to illustrate how the disposable income is calculated?</p>
A4	<p>The extent and granularity of the information to be collected by the authorized insurers and licensed insurance intermediaries may vary depending on the particular circumstances of their target customers and the mode of operation of the distribution channel.</p> <p>As to the FNA template at Appendix to the Guideline, authorized insurers and licensed insurance intermediaries may add questions or modify the wording (including the sequence) of the questions for the purposes of proper assessment of the customer's particular circumstances, provided that such addition or modification complies with the requirements set out in paragraph 6.5 of the Guideline.</p>
Q5	<p>Can authorized insurers or licensed insurance intermediaries directly ask the customers to provide their desired level of protection / target saving amount, or is the level or amount required to be calculated?</p>
A5	<p>The extent and granularity of the information to be collected by the authorized insurers or licensed insurance intermediaries may vary depending on the particular circumstances of their target customers and the mode of operation of the distribution channel. In some cases, customers may be asked directly to provide their desired level of protection / target saving amount. However, certain customers, such as vulnerable customers, might need guidance by the authorized insurers or licensed insurance intermediaries on such assessment.</p>
Q6	<p>If a customer seeks to purchase an insurance policy through a trust arrangement or power of attorney, is it acceptable for the trustee or the attorney to conduct the FNA on behalf of the customer?</p>
A6	<p>It is uncommon for an insurance policy to be purchased through a trust arrangement or power of attorney. Paragraph 6.7 of the Guideline states that "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 rather than the trustee".</p> <p>As a matter of principle, whenever information privy to the customer is to be collected (e.g. identifying the objectives of the customer through the FNA), the information (e.g. needs, objectives, intention, financial situation and any other matters requiring the customer's own personal knowledge) should be collected from the relevant individual(s) (e.g. the insured or the settlor (rather than the trustee) in the case of trust; or the donor or grantor (rather than the attorney) in the case of power of attorney, who has knowledge of the subject matter privy to him or her.</p> <p>In such cases, the "customer" or "policy holder" referred to in the relevant requirement should be construed as the insured or the settlor in the case of trust, or the donor or grantor in the case of power of attorney, for the purposes of compliance with those requirements.</p>

	<p>The same principle applies to all the rules and guidelines (e.g. Guideline on Sale of Investment-Linked Assurance Scheme (“ILAS”) Products (GL26), Guideline on Long Term Insurance Policy Replacement (GL27) etc) issued by the IA on matters requiring the customer’s own personal knowledge.</p> <p>For the avoidance of doubt, for the purposes of the Circular on Important Facts Statement for Mainland Policyholder, the authorized insurers or licensed insurance intermediaries should go through and clearly explain the contents of the IFS/MP directly with the insured or settlor if he or she is a holder of Resident Identity Card (PRC), rather than the trustee of the trust who merely “holds” the insurance policy as policy holder.</p>
	<i>Matters to consider before making the recommendation</i>
Q7	If the customer has indicated that premium financing is intended to be used, paragraph 6.11 of the Guideline requires the licensed insurance intermediary to take that into account when assessing a customer’s ability and willingness to pay insurance premium. Does it mean that the licensed insurance intermediaries are required to request additional information from customer regarding the premium financing arrangement so as to facilitate their proper assessment of the customer’s affordability?
A7	Premium financing is in substance a loan with the insurance policy being used as the collateral. Customers utilizing premium financing facilities would need to make loan repayments with interest (either on a regular basis, upon maturity of a certain period or in some cases upon lender’s request) which would invariably reduce the amount of disposable income or liquid assets of the customers when the required repayments fall due or upon the request of the lender. Licensed insurance intermediaries should therefore obtain the relevant information from the customers and take that into account (including the interest of the premium financing facility, amount and timing of those repayments and the consequences of default, etc.) when assessing the customers’ affordability.
	<i>Handling of mismatch cases</i>
Q8	In case there is only a slight deviation from the target savings amount identified during the FNA process, can it be considered as normal case instead of a mismatch?
A8	Paragraph 6.17 of the Guideline specifies that if the recommended product(s) is not able to achieve the target savings amount within the timeframe asked by the customer, this should be considered as a mismatch unless the deviation from the target can be justified on a sound and reasonable basis. In case of a mismatch, the licensed insurance intermediaries should follow the control measures set up to handle mismatch cases, including clearly explain to the customer the mismatch, how the recommended product(s) could meet the customer’s need despite the mismatch, and if any remedial measures may be taken, and maintain proper documentation.
	FNA Template

Q9	Question 3a of the FNA Template specifies “income from liquid assets”. Can authorized insurers or licensed insurance intermediaries also consider the income derived from fixed assets as well?
A9	Income derived from certain liquid or fixed assets (e.g. rental income from industrial properties) could be volatile. If such volatile income is the sole source of funding available to meet the regular payments of premiums, care should be taken in counting such income (in full or in part) at the affordability assessment. In the event of doubt, authorized insurers and licensed insurance intermediaries should adopt a prudent approach when performing the affordability assessment for such cases.
Q10	Can authorized insurers or licensed insurance intermediaries keep the recommendation table of previous FNA template so as to document the insurance choice being recommended?
A10	Yes. Care must however be taken to ensure that customers are not asked to sign any documents which serve to disclaim any liability or responsibility imposed upon the authorized insurers or licensed insurance intermediaries in performing a proper FNA process.