Questions and Answers
on 'Guidance Note on Underwriting Long Term Insurance Business
(other than Class C Business)' ("GN16")

The list of questions and answers are for reference only. Insurers are advised to contact their case officers in case of doubt.

I. Section 3 – Purpose

Q 1. Certain types of products are excluded from the FNA requirements. However, there are requirements under GN16 (e.g. Section 7 on Suitability Assessment, Section 8 on Advice to Customers, Section 11 on Post-Sale Control etc) which require information about customers to be collected through the FNA process.

A 1. For products which the FNA requirement is optional, insurers should still use best effort to collect the necessary information from the customers to fulfill their obligation under the GN16 (e.g. through application form to determine if a customer is a vulnerable customer). Nonetheless, insurance options (which should be given based on customers' responses to FNA) need not be provided to customers if the FNA process has not been conducted. For better customer service and best practice, however, insurers are encouraged to conduct FNA even for those excluded products.

II. Section 5 – Product Design

Q 2. Section 5.3 requires insurers to monitor the products after launch to ensure that they continue to meet the needs of the target customers. Does this requirement apply to products which are not available for sale? Some old products might not have gone through a structured product design process (and therefore have not identified any "target customers").

A 2. The requirements apply to products available for sale only. Nonetheless, insurers should put in place mechanism to perform regular review on shelved products which still have inforce policies as "target customers" include both existing and new customers. For current products which may not have gone through a structured product design process (and therefore have not identified any "target customers"), the relevant requirement under section 5.3 should be followed on a "best effort basis".

III. Section 6 – Provision of Adequate and Clear Information

Q 3. Please clarify whether rider addition, if done after the point of sale of basic plan (say few years or even few months later), is considered as new business sale.

A 3. Treatment for riders should follow the requirement as if it is a basic plan.

Q 4. Section 6.6 specifies that key product risks should be included in the product brochure and marketing materials and insurers should communicate the relevant product risks to their potential customers. Does this requirement apply to products which are not available for sale? If a risk factor is not relevant and therefore not disclosed initially, but becomes relevant later on, are insurers required to disclose that factor?

A 4. It applies to new business sales only. In cases where a risk factor is not disclosed at point of sale but becomes relevant after policy issuance, insurers should determine whether policyholders should be informed or not with due regard to the situation and materiality of the risk involved.

Q 5. Section 6.8 specifies that for policies to be used as collateral assignment (e.g. for premium financing), insurers should ensure that the policyholder 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 policyholder, risk of release of information to the assignee, etc). Does this apply to new assigned policies only?

A 5. Insurers are required to follow the relevant requirements when customers submit the application to use their policies as collateral assignment.

IV. Section 9 – Appropriate Remuneration Structure

Q 6. What is the definition of "earned basis" under section 9.2?

A 6. Indemnity commission is banned after 1 April 2016. After that date, any commission payable (excluding those payable for contracts concluded before that date) should be paid on earned basis (i.e. at the time of payment, the cumulative commission paid cannot be higher than the cumulative premiums received). For the avoidance of doubt, overrides directly attributable to the sale of the relevant policy are deemed as part of the commission paid.

Q 7. Section 9.3 requires insurers to put in place clawback mechanism to fully recover all commission paid in proven fraud / money laundering / mis-selling cases. Does it apply only to new products launched after GN16 is effective?

A 7. No, the requirement applies to all policies.

V. Section 11 – Post-sale Control

Q 8. Section 11.2 requires post-sale confirmation calls be made to vulnerable customers. Does it apply to telemarketing channel where the sales process is performed with recording?

A 8. For telemarketing where voice recording is used during the sales process, post-sale call for vulnerable customers is still needed (except pure term life insurance policies without riders or refundable feature) to reaffirm customers' understanding of the policy that they have procured, and that they are fully aware of their rights and obligations under the policy. To streamline the process, insurers can perform the post-sale confirmation process immediately after the sales process, but it must be conducted by a third party with voice recording. For clarity sake, in the case of group business, "customers" refers to policy owners and not the individual covered members of the group policy.

VI. Section 12 – Commencement

Q 9. How to define "current product" and "new products" as they are subject to different effective dates under section 12.1? To what extent product change will be regarded as new products rather than revamped version of current products?

A 9. Current products refer to products that exist prior to 1 April 2016. Change in pricing information only (e.g. guaranteed and non-guaranteed benefit, premium rate, etc) is considered as just revamped version of current product (rather than a new product). Only change in product feature (e.g. premium term and/or frequency of coupon / bonus) is considered as new product.

Q 10. For current products, does it mean that the requirements of GN16 are not applicable until 1 January 2017?

A 10. No. The additional leeway provided for new and existing policies of current products is mainly for system modification, administrative procedural changes etc considering the sheer number of inforce products involved. For certain requirements under GN16 (such as ban on indemnity commission, appropriate clawback mechanism on commission), however, the additional preparatory efforts should be minimal as insurers are required to put in place the relevant mechanism for new products anyway by 1 April 2016. To allow for preparatory work on post-sale calls for vulnerable customers, the effective date is extended to 1 July 2016.

Q 11. Section 4.1.1.5 of Appendix I specifies that insurer should disclose on its company website the non-guaranteed dividends/bonuses fulfillment ratios for each product series of participating policies which has new policies recently issued (with similar requirement under Section 4.2 of Appendix II in respect of historical crediting interest rates for universal life policies). For current products, does it mean that the two requirements are not applicable until 1 January 2017?

A 11. For new and existing policies of current products, the two requirements shall not take effect until 1 January 2017. Nonetheless, if an insurer issues any new products after 1 April 2016, it is required to disclose on its company website the relevant information in compliance with the two sections.

Q 12. Is there any transitional arrangement for new policies of current products with benefit illustration signed before the implementation date of 1 January 2017 but the policy concerned is issued after that date?

A 12. In accordance with the no-action period until 1 July 2017 in respect of provision of point-of-sale illustration for new policies of current products, for new policies of current products (including new application and top-up) with benefit illustration signed prior to 1 July 2017, the policy must be issued no later than 31 July 2017. Nonetheless, if the policy cannot be issued due to outstanding medical attendant's report, medical examination, blood test, laboratory test, provision of financial evidence, and client's check up reports, the policy must be issued no later than 31 September 2017. In such cases, proper records must be kept to allow inspection by the IA if required.

VII. Appendix I – Requirements Applicable to Participating Policies

Q 13. Section 4.1.1.3 requires insurers to highlight the investment strategy of the underlying investment in its product brochure, and mention the asset classes and security concentration in the investment strategy. However, investment strategy is likely to change over time. Does it mean that the investment strategy disclosed at the point of sale cannot be changed afterwards?

A 13. Insurers can disclose the exact percentage or a range of percentage for target asset / investment mix. Insurers should disclose the available information as far as possible. In case where the investment strategy is likely to change over time, insurers should disclose the investment strategy / other underlying information at point of sale and mention these might be subject to change. When there are significant changes in the investment strategy, insurers should inform policyholders the changes, the underlying reasons and any impact to them.

Q 14. For ongoing communication under section 4.1.2.1, how would it apply in the case of inforce policies?

A 14. Inforce policyholders should receive at least an inforce illustration once for policy year end immediately after the commencement of GN16. Going forward, if there is no change to dividend/ bonus / crediting rates from the last inforce illustration / benefit illustration at the point of sale (and no change in the latest market conditions and outlook), it is at the discretion of insurers to send an updated inforce illustration to policyholders along with annual statements.

Q 15. Please clarify the requirement under section 4.1.3.1 in respect of projection of premium offset option based on different scenarios.

A 15. When premium offset option is to be illustrated or first chosen by policyholders at the point of sale or during policy life, as a minimum requirement, premium offset should be prepared on basic plan under two sets of scenarios (adverse scenario and current assumed basis) unless such illustrations have been previously provided to policyholders. For subsequent inforce illustration, only one scenario (i.e. best estimate by the time the inforce illustration is generated) with relevant appropriate alert (e.g. such illustration may not be sustainable as the amount of premium offset depends on non-guaranteed benefits) is required.

Insurers are allowed to present supplementary illustration showing effect of offsetting premiums of the basic plan and the attached rider(s). Again, adverse and current assumed basis should be illustrated. In general, it is considered sufficient to use pessimistic scenario as the adverse scenario in projection of premium offset option. The implementation date of this requirement follows the respective dates of benefit illustration requirements for new products and current products.

VIII Appendix II – Requirements Applicable to Universal Life Policies

Q 16. Is it sufficient to show "NA" in the summary of charges required under section 3.6 if there is no explicit maximum rate for COI, Policy Fee or surrender charge etc?

A 16. Yes.