

Guidance Note on Product Recommendation for Long Term Insurance Business (Including Linked Long Term Insurance)

According to Membership Regulation 3.5, the General Committee is issuing this Guidance Note on Product Recommendation for Long Term Insurance Business (Including Linked Long Term Insurance). To avoid any doubt or confusion, this Guidance Note is **NOT** applicable to General Insurance Business or indemnity-type medical insurance wrapped under long term insurance policy.

Background

On 30 July 2014, the Office of the Commissioner of Insurance issued its “Guidance Note on Underwriting Class C Business” (GN15). This GN15 is applicable to all authorized insurers underwriting Class C business, or commonly known as Investment Linked Assurance Scheme (“ILAS”). Whilst the spirit behind it is to ensure fair treatment of clients by the insurance industry at large, provisions in its Section 7 (Suitability Assessment) and Section 8 (Advice to Client) are of relevance to the business conduct of insurance brokers.

This CIB Guidance Note is issued to reflect the additional requirements arising therefrom on the product recommendation for Long Term Insurance Business (Including Linked Long Term Insurance).

Besides the said GN15, the CIB Code of Conduct (among other things) requires our Members and their Chief Executives and Technical Representatives to do everything possible to satisfy insurance requirements of their clients. The Minimum Requirements for insurance brokers specified by the Insurance Authority also require an insurance broker:-

- (a) to exercise due care and diligence in understanding and satisfying the insurance needs and requirements of his client;
- (b) not to prejudice his/her client’s selection of insurers by unreasonably limiting the choice of insurers; and
- (c) not to be unreasonably dependent on any particular insurer in transacting insurance broking business.

This CIB Guidance Note shall be read in conjunction with the CIB Guidance Note on Conducting “Know Your Client” Procedures for Long Term Insurance Business (Including Linked Long Term Insurance), and Members are asked to develop appropriate policies and procedures and supervise their business conduct in this regard and to provide adequate training to their registrants and staff members to ensure due observance of the additional requirements.

Assessment

1. No products of Long Term Insurance (Including Linked Long Term Insurance) should be offered or recommended without the “Know Your Client” procedures having been duly conducted and the information collected properly assessed for the clients.
2. The assessment of the client’s needs should refer to the financial circumstances, needs and requirements of the clients as disclosed and duly recorded in documentation obtained by Members in conducting the “Know Your Client” procedures.
3. If the client is covered by existing long term insurance policy(ies) that is/are in force, paid-up, suspended or under premium holiday, or with contribution at a reduced amount, the Members should assess and formulate an advice to the client on the appropriate option to his/her existing insurance portfolio of the client to satisfy any insurance needs and requirements identified, prior to formulating an advice of taking out new or additional long term insurance policy.

4. In conducting the assessment, Members should verify all available information and should satisfy themselves that the client is financially capable to commit to options to his/her existing insurance portfolio or taking out a new or additional long term insurance policy, in particular consideration should be given to the stability of income, target retirement age, and liquidity of assets of the client.
5. The assessment should be carried out again when Members have been informed of changes in circumstances including when an existing policyholder requests a top up as well as when Members have conducted the "Know Your Client" procedures to update clients' information.

Product Selection

6. It is the proposition of the Insurance Authority that ILAS products should bring insurance value to clients, and all authorized insurers in Hong Kong have agreed that, as from 1 January 2015, all their ILAS products would provide a minimum death benefit of 105% of the account value.
7. Members should put in place appropriate procedures to select from the market and present to clients suitable, adequate and different options that are available to meet their specific needs and financial circumstances. Members should endeavour to reduce the risk of recommending products that do not meet client's needs. In particular, whenever an ILAS policy is recommended to clients, the Members must also include in the recommendation a product which is classified under Class A of the Long Term Business in the Insurance Companies Ordinance (see notes below) as one of the options, with the exception that:-
 - (1) when the client specifies the "Capital Investment Entrant Scheme" ("CIES") to be his/her need during the "Know Your Client" procedures, Members should then select and present adequate options of the ILAS products that suit the requirement under the CIES to the client; or
 - (2) When the client specifies that he/she wishes to make the investment decision and is willing to bear the investment risk, Members should then select and present adequate options of the ILAS products that suit the requirement to the client.

(notes: Class A of the Long Term Business in the Insurance Companies Ordinance is described as "Life and Annuity" with the nature of business narrated as "Effecting and carrying out contracts of insurance on human life or contracts to pay annuities on human life, but excluding (in each case) contracts within class C below").

8. An ILAS policy should only be recommended to clients who are willing to bear the investment risk. When recommending an ILAS policy, Members should explain to the client as to why the ILAS policy is more suitable than non-ILAS policy presented. Members should also explain the basis of the recommendation of each alternative having regard to the information about the client obtained through the "Know Your Client" procedures, the fees and charges involved, features of the recommended policy and any possible disadvantages of the policy to the client as can be reasonably assessed by Members.
9. Members are reminded that in accordance with Membership Regulation 14.5, it is only when there are no suitable products offered by authorized insurers in Hong Kong or it is explicitly required by the clients, that the Member may arrange insurance products of providers not authorized in Hong Kong. In this event, Members should advise clients as per the format prescribed in Annex C to the Membership Regulations.

Recommendation in Writing

10. Members should present in writing their recommendation of the options selected together with the basis thereof to client, who should be asked to confirm in writing whether he/she would agree to proceed and with which option presented. A copy of the confirmation should be provided to the client for retention.
11. In the recommendation of a regular premium policy, Members should include, but without limitation, the following:-

- 11.1 the ratio of the regular premiums of the recommended product to the client's disposable income. When client's disposable income is known in the form of a range, the lowest end of the range should be used for the calculation. The figures may be annualized or presented in terms of a monthly average. The premium amount of the recommended product should use the figures as shown in the insurer's illustration document. When there are premiums for any riders to the recommended product not included in the illustration document or where the premium will change significantly over time, Members should draw this attention of the client in writing so that the client can understand the nature of the premium to income ratio taking this into account;
- Notes: Client's disposable income should be worked out by taking into account the client's income stream and existing financial commitments, e.g. living expenses of client and his/her dependant, mortgage and tax payments, other insurance premium payments, as collected in the Needs Analysis.
- 11.2 the financial commitment of client, i.e. the total premiums payable for the full payment term of the recommended product as shown in the insurer's illustration document. When there are premiums for any riders to the recommended product not included in the illustration document or this type of premium will change significantly over time, Members should draw the attention of the client to this in writing so that the client can understand the total financial commitment; and
- 11.3 whether the premium payment term goes beyond the client's target retirement age, and in this case the client's intended source(s) of fund to pay thereafter.
12. Before proceeding to arrange a regular premium policy, Members should obtain a declaration by the client that he/she is comfortable with the ratio, consents to the financial commitment, and where applicable, confirms his/her capability to pay premiums beyond his/her target retirement age, and when it is an ILAS policy, also with the fees and charges and the investment risks.
13. In the recommendation of single premium policy, Members should include, but without limitation, the following:-
- 13.1 the premium/liquid asset ratio, where the premium is that of the recommended product and the amount of liquid asset should be that identified during the "Know Your Client" procedures;
- 13.2 the lock-up period (i.e. when any charge or fee applicable for total or partial withdrawal or surrender of policy)
14. Before proceeding to arrange a single premium policy, the Members should obtain a declaration by the client that he/she is comfortable with both the ratio and the lock-up period, and when it is an ILAS policy, also with the fees and charges and the investment risks.
15. When insurance product of providers not authorized in Hong Kong is included in the recommendation, the Members should give the rationale of the inclusion.
16. No other policy illustration in any form other than the policy illustration documents prepared and provided by insurers, is allowed to be prepared, used, presented and/or provided to clients.
17. If it is the case that the client does not provide any or all parts of the information required in the documentation for conducting the "Know Your Client" procedures or that the assessment and product recommendation is based on no or limited information of the client, the Member should include an appropriate disclaimer in the recommendation.

===