

Life Insurance Council Cooling-Off Initiative

1.0 Introduction

- 1.1 The Life Insurance Members of the Hong Kong Federation of Insurers have decided, on the basis of self regulation, to introduce cooling-off rights for purchasers of new life insurance policies in Hong Kong.
- 1.2 These rights will give Hong Kong consumers a chance to re-think their decision to purchase a life insurance product.
- 1.3 This will give purchasers of life insurance products a degree of consumer protection **not available to purchasers of many other products in the market place.**
- 1.4 The Industry is pleased to offer this extra protection since it is important to give the consumer a reasonable period of time to reflect on such a long term commitment.

2.0 Effective Date/Scope

- 2.1 Policies covered by this initiative are detailed in Appendix 1.
- 2.2 This initiative will apply in all those cases where the application is received on or after 1st July 1996.

3.0 Cooling-Off Period

- 3.1 The Cooling-Off Period will extend to the later of:
 - 3.1.1 21 days after the date on which the application for the new policy has been signed; and
 - 3.1.2 14 days after the date of issue of the new policy
- 3.2 If for any reason the delivery of a policy is delayed, the cooling off protection afforded under this new initiative will not extend beyond the period defined in paragraph 3.1.
- 3.3 Life Members of the HKFI are required to maintain records in respect of complaints or disputes from clients seeking refunds outside the period defined in paragraph 3.1 and to provide these records to the HKFI upon request.

4.0 Cooling-Off Rights

- 4.1 For all non linked policies other than non linked single premium policies, policyowners will have the right within the Cooling Off period to receive a refund of 100% of the premiums paid.

- 4.2 For all linked policies, and all non linked single premium life insurance policies, the insurer will have the right to apply a "market value adjustment" (MVA) to the refund of premiums.
- 4.3 Any such MVA must be calculated solely with reference to the loss the insurer might make in realising the value of any assets acquired through investment of the premiums made under the life policy. It shall therefore not include any allowance for expenses or commissions in connection with the issuance of the contract.
- 4.4 In the case of a linked policy, the insurers right to apply a MVA must be disclosed in the Principal Brochure, and the basis of calculation must be available for disclosure to the potential policyholder prior to the completion of the Application form.
- 4.5 For non linked single premium policies, potential policyowners must be made aware that the insurer has the right to apply a MVA before the policyowner signs the application. This may be done by letter, or within the product brochure.

5.0 **Announcement of Cooling-Off Rights on Application Form**

- 5.1 A statement as defined in Appendix 2 must be included on the Application Form immediately above the space for the signature. (During the period until 31/12/96, a label may be applied to the existing application form).
- 5.2 The size of the printing for the statement must not be smaller than the print size used for any other declarations on the form. Furthermore, the font size shall not be less than 8.
- 5.3 It shall be communicated in the same language(s) as are used for all other sections of the Application Form.

6.0 **Advice at time of Policy Issue**

- 6.1 When the Policy is issued, the policyowner must be advised of the Cooling-off Rights attaching to the policy.
- 6.2 This may be done by way of a letter from the Insurer mailed direct to the policy owner, or a statement on the policy jacket or policy cover. (either printed or by way of label). (During the period until 31/12/96 an insert may be used as an alternative to the label).
- 6.3 It shall be communicated in the same language(s) as are used for other communication at the time of policy issue.
- 6.4 The type face shall be no smaller than font size 10.
- 6.5 For details of the Announcement required, see Appendix 3.

Scope of Cooling-off Rights

“Cooling-off” right will apply as follows :

| | Transaction | Does Cancellation Right Apply ? | Cooling-off period | How to cool off | Refund Amount |
|-----|--|---------------------------------|--|--|---|
| 1. | New non linked life policies (excluding single premium policies) | Yes | Later of (a) 21 days from application signed date or (b) 14 days from policy issue date | <ul style="list-style-type: none"> · Signed letter from client sent direct to Members H.O. · Policy return · Received within cooling off period | All premium(s) paid |
| 2. | New linked life policies and all single premium life policies | Yes | Same as above | Same as above | All premium(s) paid <u>less</u> Market Value Adjustment (MVA) |
| 3. | Premium increase for increased sum assured | No | N/A | N/A | N/A |
| 4. | Indexation increases exercised under existing policy terms and conditions | No | N/A | N/A | N/A |
| 5. | New rider added to existing life policy | No | N/A | N/A | N/A |
| 6. | Existing policy where the client applies to “convert” e.g. Term basic or Term rider to whole of life | No | N/A | N/A | N/A |
| 7. | General Insurance products | No | N/A | N/A | N/A |
| 8. | Group Medical | No | N/A | N/A | N/A |
| 9. | Group Life Insurance | No | N/A | N/A | N/A |
| 10. | Employer Sponsored Provident Fund | No | N/A | N/A | N/A |

Application Form - Wording Guideline

The ability of a policyowner to take advantage of their cancellation rights must be prominently displayed on the application form. Guideline wordings and format as below :-

(a) For All Non Linked Policies other than Non Linked Single Premium Policies

“Cancellation Right and Refund of Premium(s)”

I understand that I have the right to cancel and obtain a refund of any premium(s) paid by giving written notice. Such notice must be signed by me and received directly by [Hong Kong address of Members Main Office] within 21 days from the date of this application, or 14 days from the date of issue of the policy if later.”

Notes

- (i) members may need to define date of policy issue in their policy provisions.
- (ii) the address must be a Hong Kong address.

(b) For All Linked Policies and all Non Linked Single Premium Policies

“Cancellation Right and Refund of Premium(s)”

I understand that I have the right to cancel and obtain a refund of any premium(s) paid less any market value adjustment, by giving written notice. Such notice must be signed by me and received directly by [Hong Kong address of Members Main Office] within 21 days from the date of this application, or 14 days from the date of issue of the policy if later.

Notes

- (i) members will be required to disclose their right to apply a MVA and have available details of the basis of calculation of the MVA as part of the sales process and for disclosure before the application is signed.
- (ii) For linked products the right to apply a market value adjustment basis must be included in the principal brochure.
- (iii) the address must be a Hong Kong address.

(c) Format of Wording

Should be prominent and no less than 8 font size, and

- (a) In bold type no smaller than the main type font used on the application form,
- (b) Be communicated in the same language(s) as are used for all other sections of the Application Form, and
- (c) On the application form immediately above the place for the clients signature.

Announcement with Policy Issue - Wording Guideline

An announcement must be prominently made at the time of policy issue clearly reminding the policyowner of their cooling-off rights and alerting them to the end of the cooling-off period. Policyowners should also be advised that they have the right to call the company direct if they wish to further understand their rights. Guideline wordings and format as below :

(1) Wording

“Your Right to Change Your Mind

If you are not fully satisfied with this policy
you have the right to change your mind.

We trust that this policy will satisfy your financial needs, however if you are not completely satisfied then you should

- return the policy, and
- attach a letter, signed by you, requesting cancellation.

The policy will then be cancelled and the premium(s) paid will be refunded {See Note A}.

This cancellation right has the following conditions :

- Your request to cancel must be signed by you and received directly by our [Hong Kong address of Members Main Office] within 14 days after the date of issue of the policy (or 21 days after your application date if later), and
- No refund can be made if a claim payment has been made.

Should you have any further queries you may contact [] and we will be happy to explain your cancellation rights further.”

Notes

A) For all Linked Policies and all Non Linked Single Premium Life Policies add “less a deduction of the amount (if any) by which the value of your investment has fallen at the time when your cancellation letter is received by us.”

(2) Announcement Format

Members may decide to make this announcement either by :

- (a) display on policy jacket / cover, or
- (b) by separate notice, from the Insurer mailed direct to the client

The announcement must be prominently displayed and no smaller than 10 font size.