

By Fax & By Email

Ref : Mv126/15  
To : Authorized Representatives of Life Insurance Members ("LIMs")  
cc : Ms Carol Hui, Assistant Commissioner of Insurance  
From : Stuart Harrison, Chairman of Professional Standards Working Group,  
Life Insurance Council ("LIC")  
Date : 13 November 2015  
Subject : **Frequently Asked Questions ("FAQs") on Initiative on Financial  
Needs Analysis ("FNA")**

Further to our circular dated 14 July 2015 (Ref: Mv090/15) on FNA, the LIC has collected comments / questions from the LIMs and finalized the attached FAQs on FNA to facilitate compliance by LIMs with the FNA.

With respect to the following issues, we have discussed and agreed with the Insurance Authority (IA) that:

- (A) Suitability Assessment (Q4): Individual LIMs should define which products would be suitable for clients with Savings Need Vs Investment Need and take into consideration at the stage of new product design following the relevant requirements under GN16 issued by the IA.
- (B) Potential Mismatch of Needs / Affordability (Q5): A standard post-sale call script for this particular purpose would not be required. Individual LIMs should ensure that the post-sale calls cover the areas highlighted in the exact area(s) with mismatch.
- (C) FNA for Corporate Customer: The LIC would not design a separate FNA for Corporate Customer e.g. Key Person Life Insurance, which would be developed by individual LIMs with their business need.

After implementation of the FNA on 1 January 2016, if you have any observations and comments, please let us know and we shall keep this under review with the IA from time to time.



SH/JW/LC  
Encl.

## Questions and Answers on 'Initiative on Financial Needs Analysis' ("FNA")

**Disclaimer: The list of questions and answers are for reference only. Members are advised to consult their own legal counsel as necessary.**

### I. REQUIREMENTS

- Q** 1. Except certain types of policies mentioned in 1(a), every application for new life insurance policy (including rider and top-up) must be accompanied by a financial needs analysis ("FNA") form ("the FNA requirement"). What criteria would be used to determine if a rider application (including top-up or rider added after policy issuance) needs to be accompanied by an FNA form?
- A** 1. Treatment for riders should follow the requirement as if it is a basic plan.
- Q** 2. Please provide a definition of 'top-ups', in particular whether inflation protector option would be considered a top-up.
- A** 2. Top-ups include any addition in sum assured / protection level / additional investment but exclude any prepayment, increase of account value due to policy bonuses, dividends or coupons. Indexation option, which usually takes the form as policy endorsement, is not considered as a top-up.
- Q** 3. For refundable insurance policies under 1(a)(ii), does it have to be 100% or more "refundable" in order for the FNA requirement be exempted?
- A** 3. Yes. For those refundable insurance policies which are not 100% refundable (e.g. the amount refunded would be less than 100% if claims have been made under the policies), insurers should approach the Insurance Authority ("IA") accordingly.

However, even for those refundable policies which are 100% or more refundable, insurers are reminded that in determining whether the products concerned are exempted from the FNA requirement, they should consider the substance and nature of the products (rather than name or form). In this regard, when the amounts refundable in substance represent substantial savings component taking into account relevant factors (e.g. for policies which are more than 100% refundable: size of the refundable portions in excess of 100%, period of time when the amounts will be refundable, etc.), the products (despite being called "refundable") may in substance be of nature as policies which are subject to the FNA requirement (such as endowment policies).

Insurers using the bank distribution channel are further reminded of the requirements of the HKMA in its circular letter of 4 August 2015 regarding refundable policies with "substantial savings component". For such products, the exemption arrangement should not be applied.

### II. SUITABILITY ASSESSMENT

- Q** 4. For insurance products with investment element (e.g. participating policy, universal life insurance policy), is it necessary for customers to indicate that they have both

*(as at 13 November 2015)*

insurance and investment needs (i.e. by ticking both (a) and (e) in Q1 of the FNA form) before such products can be recommended to customers?

- A** 4. Answers provided by customers in both Q1 and Q2 of the FNA form, among other relevant circumstances of the customers, should be taken into account.

7.1 of GN15 issued by the IA specifies that ILAS products should only be sold to clients with both investment and insurance needs. For non-ILAS product, such as participating policy, which has certain investment element (i.e. in the form of non-guaranteed benefits determined mainly by the performance of the participating pool etc), whether customers need to indicate investment needs or savings needs, in addition to insurance needs, before such products can be recommended to customers depends on the specific feature of the products concerned.

For instance, for a participating policy which has high level of non-guaranteed surrender benefits and the investment element is a predominant feature of the product, it may be suitable only for customers with both investment needs and insurance needs. On the other hand, for a participating policy where substantial portion of surrender benefits is derived from guaranteed benefits, there exists a savings element and may be suitable for customers with both savings needs and insurance needs.

Insurers, when performing the diligent review required under GN16 issued by the IA during the product design stage, should properly identify the target customers (i.e. among other circumstances of the customers, whether the product concerned is suitable for customers with savings or investment needs, in addition to insurance needs; and what types of insurance products the customers are looking for to meet such objectives) and provide appropriate product training to their intermediaries accordingly.

- Q** 5. Where there is a mismatch (e.g. needs, affordability), are insurers allowed to issue the policies anyway if customer declaration is made?

- A** 5. The overarching principle is that insurers and intermediaries should ensure that the recommended policy is suitable for the circumstances (e.g. needs, affordability, etc) of the customer.

In case of affordability mismatch (e.g. the customer has indicated a target premium term of 10 years but is recommended a product with whole-of-life payment term), insurers should not accept the application even with customer declaration (including ILAS and non-ILAS).

For suitability mismatch other than affordability mismatch mentioned above, the intermediary concerned must document in writing why the product is still suitable for the customer despite the mismatch, and the insurer should, during the underwriting process, review and assess the reasonableness of such recommendation before accepting the application. The insurer should further clarify and confirm with the customer through post-sale confirmation call (highlighting the exact area(s) with mismatch). In case of unsuccessful call (within

the existing timeframe of post-sale confirmation call) or the customer is reluctant to perform the call, the insurer should send a confirmation letter (highlighting the exact area(s) with mismatch) to the customer, alongside an email/SMS alert that draws the attention of the clients to the importance of the confirmation letter. Insurers are required to put in place an effective mechanism to identify potential mis-selling activities of intermediaries, such as high frequency of suitability mismatch, or having high rate of unsuccessful post-sale confirmation calls etc.

**Q** 6. Intermediaries are required to take into account the customers' total protection needs, total disposable assets, financial outgoings and liabilities etc before making recommendation. How detailed such information need to be collected to be considered as sufficient for the purpose?

**A** 6. The level of detail required depends on a number of factors such as product mix, distribution channel, target customers etc of the insurer concerned. For instance, it is reasonable to expect that more detailed information are collected if the products concerned are complex by nature and may not be suitable for an average customer. Insurers, when designing their FNA forms, should have due regard to the relevant requirements.

**Q** 7. It is stated that the FNA must include all the questions and multiple choice options in the suggested FNA form as set out in the Appendix. Are Insurers allowed to have certain degree of flexibility on the presentation of the questions and the choice of options as suggested in FNA Form?

**A** 7. As a matter of principle, insurers are required to include all the questions and multiple choice options in the suggested FNA form as set out in the Appendix, and strictly follow the wording. In cases where the insurers have compelling reasons not to do so, they should approach the IA accordingly.

### **III. ADVICE TO CUSTOMERS**

**Q** 8. "Insurance advice provided by intermediaries" needs to be based upon customers' needs and that FNA should be carried out "during the sales advisory process". Do the FNA requirements apply to Direct-to-Customer channel such as internet sale?

**A** 8. Yes. The FNA requirements apply to all channels of distribution.

**Q** 9. If the customer indicates a need to use ILAS for investment and insurance protection (i.e. by ticking 1(a), 1(e) and 2(d) of the FNA form) but the intermediary concerned is not allowed to sell ILAS (or the insurer concerned does not carry ILAS product), is the intermediary required to explore the ILAS option in Q5?

**A** 9. Yes. The intermediary is still required to briefly explain what ILAS is as a product type in general, without exploring any ILAS product options to the customer.

### **IV. IMPLEMENTATION**

**Q** 10. Is there any transitional arrangement for FNA performed before the implementation date of 1 January 2016 but the policy concerned is not issued before that date?

**A** 10. For new business (including new application and top-up) using "Needs Analysis

*(as at 13 November 2015)*

Form” prior to 1 January 2016, the policy must be issued no later than 31 January 2016. 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 March 2016. In such cases, proper records must be kept to allow inspection by the IA if required.

## **Initiative on Financial Needs Analysis**

### **Purpose:**

Life insurance policies are long term policies that may lock the liquidity of customers. Accordingly, it is of paramount importance that insurance advice provided by intermediaries needs to be based upon customers' needs. It is therefore necessary to carry out financial needs analysis for the customers during the sales advisory process. This is in line with the global trend of the life assurance industry becoming more and more customer-focused. This circular supersedes the "Initiative on Needs Analysis" issued in 2007 and will **take effect on 1 January 2016**.

### **Requirements:**

- 1) Every application for new life insurance policy (including rider and top-up) falling under the following types must be accompanied by a financial needs analysis ("FNA") form:
  - (a) Any policies of the nature specified in Class A in Part 2 of the First Schedule to the Insurance Companies Ordinance (Cap. 41) ("ICO") except –
    - (i) term insurance policies;
    - (ii) refundable insurance policies providing hospital cash, medical, critical illness, or personal accident cover;
    - (iii) yearly renewable insurance policies (without cash value) for critical illness/medical cover; or
    - (iv) group policies.
  - (b) Any policies of the nature specified in Class C in Part 2 of the First Schedule to the ICO.
- 2) The FNA must include all the questions and multiple choice options as set out in the Appendix. However, Member Companies may include additional questions and/or multiple choice options, if they consider that such will further enhance the suitability assessment for their own products. Member Companies may accept FNA forms of insurance brokers and insurance agencies provided that such forms are in compliance with the requirements of this circular.
- 3) Neither Member Companies nor customers can opt out of the FNA. A customer must respond to all the questions and multiple choice options as set out in the Appendix. If a customer, for privacy or other reasons, chooses not to disclose income/asset information under 4(a) or (b) (but not both) of the FNA, he/she must confirm their reason(s) in writing. This notwithstanding, if the absence of information under the FNA would render Member Companies or the intermediaries unable to comply with any of the requirements (e.g. assessing affordability of products recommended or comparison of different insurance options etc) under this (or any other) circular, Member Companies must reject the relevant application and should advise the customer accordingly.
- 4) The FNA must be clearly identified as a "Financial Needs Analysis" and must be signed and dated by the customer. The FNA form should include the following:
  - personal particulars (name, date of birth, marital status, occupation,

*(effective 1 January 2016)*

- education level etc)
  - financial outgoings (monthly living expenses, rent/mortgage redemption, etc)
  - disposable assets (savings, stock/securities/bonds etc)
  - liabilities (mortgage loan, debts, etc)
  - family commitments (no. of dependents, education funds, etc)
- 5) Intermediaries should take into account the customers' total protection needs, total disposable assets, financial outgoings and liabilities, as well as his/her willingness and ability to pay premium (and the duration of payment) in assessing the affordability of customer before making recommendation. The factors considered, evaluation, and reason(s) for the recommendation made by the selling intermediary should also be included in the FNA.
- 6) Member Companies must require the intermediaries to carry out an FNA (including comparison of different insurance options) with the customers before recommending to them **any** life insurance products and signing the application.

**Validity Period:**

A signed FNA form shall have a validity period of one year, i.e. in the event that a customer purchases additional insurance coverage from the same Member Company within a year after an FNA form is signed, he/she will not necessarily have to go through another FNA provided that there are no substantial changes in the customers' circumstances (and in such cases Member Companies can rely on the declaration by the customer) and that there are no mismatch (i.e. needs, risks, affordability etc) identified.

## APPENDIX: Financial Needs Analysis (“FNA”) Form

The following questions form the minimum required contents of the FNA form:

**Note: Please answer all questions in this form. Do NOT sign on this form if any questions are unanswered and have not been crossed out.**

**[Note: You must reply this question. Do not leave it blank. We will reject your application if you do not reply.]**

1. What are your objectives of buying our product? (tick one or more)
- a)  Financial protection against adversities (e.g. death, accident, disability etc)
  - b)  Preparation for health care needs (e.g. critical illness, hospitalization etc)
  - c)  Providing regular income in the future (e.g. retirement income etc)
  - d)  Saving up for the future (e.g. child education, retirement etc)
  - e)  Investment
  - f)  Others (Please specify \_\_\_\_\_)

**[Note: You must reply this question. Do not leave it blank. We will reject your application if you do not reply.]**

2. What type(s) of insurance products you are looking for to meet your objectives above? (tick one or more)
- a)  Pure insurance product (without any savings or investment element) (e.g. term insurance)
  - b)  Insurance product with savings element (with savings but without investment element) (e.g. non-participating policy)
  - c)  Insurance product with investment element (Investment decisions and risks borne by insurer) (e.g. participating policy, universal life insurance)
  - d)  Insurance product with investment element (Investment decisions and risks borne by policyholder) (e.g. Investment-Linked Assurance Schemes)
  - e)  Others (Please specify \_\_\_\_\_)

**[Note: You must reply this question. Do not leave it blank. We will reject your application if you do not reply.]**

3. What is your target benefit / protection period for insurance policy and/or investment plan? (tick one)
- |                                      |                                     |  |
|--------------------------------------|-------------------------------------|--|
| <input type="checkbox"/> < 1 year    | <input type="checkbox"/> 1-5 years  | <input type="checkbox"/> 6-10 years    |
| <input type="checkbox"/> 11-20 years | <input type="checkbox"/> > 20 Years | <input type="checkbox"/> Whole of life |

**[Note: You must reply at least either 4(a) or (b). If you do not wish to answer either one of them, please cross it out.]**

4. Your ability to pay premiums:
- a. What is your average monthly income from all sources in the past 2 years? (tick one or more)
    - i.  Specific amount: Not less than HK\$ \_\_\_\_\_ per month
    - or ii.  In the following range:
      - a)  less than HK\$10,000
      - b)  HK\$10,000 - HK\$19,999
      - c)  HK\$20,000 - HK\$49,999
      - d)  HK\$50,000 - HK\$100,000
      - e)  over HK\$100,000.
  - b. What is your approximate current accumulative amount of liquid assets? Please specify type(s) and total amount:
    - Type :  Cash
    - Money in bank accounts

- Money market accounts
- Actively traded stocks
- Bonds and mutual funds
- US Treasury bills
- Others (Please specify \_\_\_\_\_)

Amount : HK\$ \_\_\_\_\_

Note: Liquid assets are assets which may be easily turned into cash. Real estate, coin collection and artwork are not considered to be liquid assets.

*If you choose not to disclose income/asset information under 4(a) or (b) above, you must indicate your reason(s) **in your own handwriting** in the box below. Please note that we (the insurance company) will **reject your application** if you **choose not to respond to both 4(a) and (b)** above.*

*(Applicant must complete explanation in **own** handwriting in this box.)*

**[Note: You must reply 4(c), (d) and (e) below. Do not leave any of these questions blank. We will reject your application if you do not reply.]**

- c. For how long are you able and willing to contribute to an insurance policy and/or investment plan? (tick one)
- < 1 year     1-5 years     6-10 years
  - 11-20 years     > 20 Years     Whole of life
- d. Approximately what percentage of your disposable income would you be able to use to pay your monthly premium for the entire term of the insurance policy/investment plan in (c) above? (tick one)
- i)  <10%
  - ii)  10% - 20%
  - iii)  21% - 30%
  - iv)  31% - 40%
  - v)  41% - 50%
  - vi)  >50%
- e. In considering your ability to make payments, what are your sources of funds? (tick one or more)
- i)  salary
  - ii)  income
  - iii)  savings
  - iv)  investments
  - v)  others (Please specify \_\_\_\_\_)

5. Based on your answers to the questions above, the intermediary concerned has explored the following insurance options (as available to the intermediary) to meet your objective(s) and needs(s):

Objective(s) of Buying the Product(s) (Q1)	Type(s) of Insurance Product Explored (Q2)	Name of Insurance Product(s) Introduced (if any)	Product(s) Selected (if any)

\_\_\_\_\_  
Applicant's Name

\_\_\_\_\_  
Applicant's Signature

\_\_\_\_\_  
Date

**WARNING: Please read and fill in this form carefully. Do not leave any questions blank. Do NOT sign if any questions are unanswered and have not been crossed out.**

*Note: You are required to inform us (the insurance company) if there is any substantial change of information provided in this form before the policy is issued.*