



Ref. No. : MEMO/052/2014
To : All Members and Chief Executives
From : Jase Yiu – Chief Administrative Executive
Date : 24 December 2014
Page(s) : 11

Dear all,

Re: (1) Updates on OCI's Guidance Note on (all authorized Insurers) Underwriting Class C (Investment-Linked Assurance Schemes ("ILAS")) Business (GN15)

(2) PIBA's Guidance Note 1 on Conducting Investment Linked Business

Our memo dated 22 August 2014 (Ref. No.: MEMO/038/2014) refers.

In further response to two letters of 24 November and 10 December 2014 (Annex 1) issued by Office of the Commissioner of Insurance ("OCI") respectively, our Executive Committee Meeting approved on 18 December 2014 a **Guidance Note on Conducting Investment Linked Business (GN1)** (Annex 2), effective 1 January 2015 for our members to comply with the requisite principles extracted below:

- Product meets the "fair treatment of customers" principle
 - Provision of adequate and clear information
 - Suitability Assessment
 - Advice to Client
 - Post-sale control
- (see flowchart of Selling process of ILAS Products)

Besides, setting out in OCI's letter of 24 November 2014, please note that:

- " (a) Open Architecture ("OA") products must adopt an open investment platform with no underlying funds (i.e. OA products should not carry any underlying funds, nor should funds be offered to clients during the sales process).
- (b) Policyholders must clearly indicate in the Financial Needs Analysis Form and Important Facts Statements that they procure the OA product for tax/estate planning purposes. In general, clients not having overseas residency should not



be advised to procure OA products unless they have special reasons to do so. This must be clearly stated in the Important Facts Statements.

- (c) In view of the undertakings provided by insurers with OA products to the Securities and Futures Commission, insurers should restrict selling OA products to Professional Investors ("PI") as defined in Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap 571) only. Proper risk control and underwriting control measures should be put in place by insurers to ensure that the policyholders are PIs.
- (d) Risk governance and management control measures should be put in place to ensure strict compliance with the above requirements. Proper documentation and supporting evidence should be retained for monitoring and inspection purpose."

Best Regards,


Jase Yiu
Chief Administrative Executive

Encls

保險業監理處
香港金鐘道六十六號
金鐘道政府合署二十一樓



OFFICE OF THE COMMISSIONER
OF INSURANCE

21st Floor,
Queensway Government Offices,
66 Queensway,
Hong Kong

圖文傳真 Fax: (852) 2869 0252

覆函請註明本處檔號

In reply please quote this ref.

INS/TEC/3/42

24 November 2014

來函檔號 Your ref.

電話 Tel.

2867 4612

To: Chief Executives of authorized insurers with Class C open architecture products

Dear Sirs,

Additional Requirements
regarding Class C Products with Open Architecture

Further to my letter of 30 July 2014 regarding the Guidance Note on Underwriting Class C Business (GN15), I set out below additional requirements for the sale of Class C products with open architecture ("OA products"):

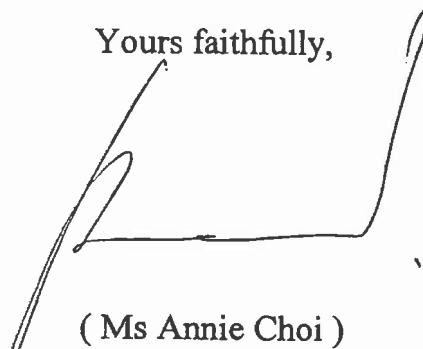
- (a) OA products must adopt an open investment platform with no underlying funds (i.e. OA products should not carry any underlying funds, nor should funds be offered to clients during the sales process).
- (b) Policyholders must clearly indicate in the Financial Needs Analysis Form and Important Facts Statements that they procure the OA product for tax/estate planning purposes. In general, clients not having overseas residency should not be advised to procure OA products unless they have special reasons to do so. This must be clearly stated in the Important Facts Statements.
- (c) In view of the undertakings provided by insurers with OA products to the Securities and Futures Commission, insurers should restrict selling OA products to Professional Investors ("PI") as defined in Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap 571) only. Proper risk control

and underwriting control measures should be put in place by insurers to ensure that the policyholders are PIs.

- (d) Risk governance and management control measures should be put in place to ensure strict compliance with the above requirements. Proper documentation and supporting evidence should be retained for monitoring and inspection purpose.

Should you have any questions, please contact your case officer.

Yours faithfully,



(Ms Annie Choi)
Commissioner of Insurance
(Insurance Authority)

c.c. Chairman, The Life Insurance Council

保險業監理處
香港金鐘道六十六號
金鐘道政府合署二十一樓



OFFICE OF THE COMMISSIONER
OF INSURANCE

21st Floor,
Queensway Government Offices,
66 Queensway,
Hong Kong

圖文傳真 Fax: (852) 2869 0252

覆函請註明本處檔號
In reply please quote this ref.

INS/TEC/3/42

10 December 2014

來函檔號 Your ref.

電話 Tel. 2867 4612

To: Chief Executives of authorized insurers carrying on long term business

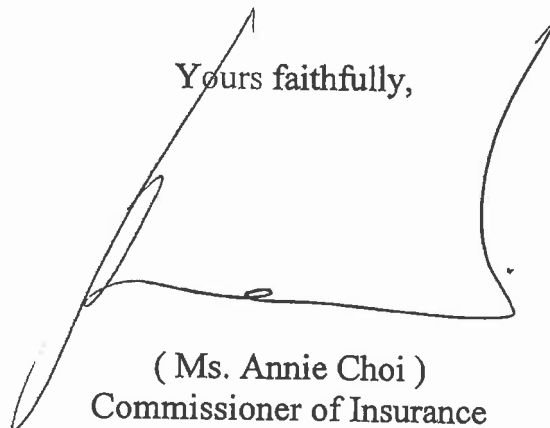
Dear Sirs,

GN15 – Guidance Note on Underwriting Class C Business

Further to my letter of 30 July 2014, I enclose herewith a copy of the revised “Guidance Note on Underwriting Class C Business” (GN15) for your information. The only change introduced in this Second Edition relates to the “Selling Process of Investment-Linked Assurance Scheme Products” at the Appendix of GN15.

Should you have any question, please contact your case officer.

Yours faithfully,



(Ms. Annie Choi)
Commissioner of Insurance

Encl.

c.c. Chairman, The Life Insurance Council

Professional Insurance Brokers Association

GUIDANCE NOTE ON CONDUCTING INVESTMENT LINKED BUSINESS

1 JANUARY 2015

1. Introduction

- 1.1 On 30 July 2014, Office of the Commissioner of Insurance (“OCI”) issued Guidance Note on Underwriting Class C Business (GN 15) which sets out the standards of conduct and business practice for authorized insurers underwriting Investment-Linked Assurance Schemes (“ILAS”) business.
- 1.2 In response to GN 15, this Guidance Note is issued to set out such standards of conduct and business practice in so far as they are applicable to members of PIBA in conducting ILAS business.
- 1.3 This Guidance Note should be read in conjunction with Code of Conduct for Insurance Brokers Conducting Investment Linked Business (“Code of Conduct for Conducting ILAS Business”) issued by PIBA as well as GN 15.

2. Product meets the “fair treatment of customers” principle

Member should ensure that ILAS product recommended to client should meet the “fair treatment of customers” principle.

3. Provision of adequate and clear information

- 3.1 Member should provide customers with clear information before, during and after the point of sale.
- 3.2 Projections in relation to the growth scenarios should not be overly optimistic.

4. Suitability Assessment

- 4.1 ILAS products should only be sold to client with both investment and insurance needs.

- 4.2 Member should endeavour to reduce the risk of sales that do not meet the needs of client.
- 4.3 Member should seek the information from clients that is appropriate for assessing their insurance needs, before giving advice or concluding a contract. This information may vary, but should at least include information on the client's:
- financial knowledge and experience;
 - needs, priorities and circumstances;
 - ability to afford the product; and
 - risk profile.
- 4.4 Client's needs must first be properly assessed through the use of Financial Needs Analysis ("FNA") form. ILAS must not be marketed to clients before their needs are properly analyzed.
- 4.5 Clients that have indicated their insurance needs should then be presented with different insurance options that are available to meet their specific needs and financial circumstances. Examples include:
- clients wanting both insurance protection and "saving up for the future" should be presented with the option of procuring an endowment policy; and
 - clients wanting both insurance protection and benefitting from growth in the investment market should be presented with the options of procuring a participation policy or an ILAS policy, and the advantages and risks of both products should be explained in detail. Only in cases where the clients wish to make the investment decision and are willing to bear the investment risk should ILAS be recommended.

- 4.6 Suitability assessment includes assessing the investment horizon of client, with due regard to the financial circumstances, planned retirement age etc.
- 4.6.1 Premium payment term – The client’s age at the time of policy inception as well as his/her target retirement age are relevant to the suitability of the premium payment term. For instance, a policy maturing in 40 years with prolonged redemption penalties would unlikely be appropriate for a 60-year-old client.
- 4.6.2 Regular premium – It is also necessary to ascertain the client’s ability to pay continuously throughout the policy payment term. For instance, it would not be appropriate to sell a regular premium product to retirees or clients that do not have a stable income.
- 4.7 The suitability assessment should be carried out whenever there are changes to the circumstances of the client, including the scenario where an existing policyholder requests a top-up.
- 4.8 Member has the duty to verify all available information, particularly the “Statement of Purpose” section in the Important Facts Statement / Applicant’s Declaration (“IFS/AD”), the FNA and Risk Profile Questionnaire (“RPQ”), and assess whether a particular ILAS product is suitable for the client.

5. **Advice to Client**

- 5.1 After a client has considered the insurance options, and is beginning to consider an ILAS policy, he/she should also be properly apprised of all the product features, particularly the fees and charges, surrender penalties (if any) as well as the product and investment risks.

- 5.2 After a client has decided to procure an ILAS policy, he/she should be fully apprised of the key products features again, as well as his/her rights and obligations, such as the right to ask for details of the intermediaries' remuneration, the need to complete the post-sale call, the 21-day cooling-off period etc. The IFS/AD must be duly signed by the client.
- 5.3 Member has the duty to put in place a proper mechanism to ensure full understanding of the above by the client, as evidenced in the IFS/AD.

6. **Post-sale control**

- 6.1 Member should establish and implement policies and procedures on fair treatment of customers. It should have proper control systems in place to achieve fair treatment of customers and monitor that such policies and procedures are adhered to.
- 6.2 The proper sales process flows is set out in the flowchart at the Appendix hereto. It involves completion of the FNA, confirmation of needs, comparison of different insurance options, completion of the RPQ, explanation of the key product features and completion of the IFS/AD.
- 6.3 Member should remind client the post-sale confirmation call from insurer after entering into contract for ILAS product.
- 6.4 Member should not abet client to evade control measures implemented by the insurers.

APPENDIX –SELLING PROCESS OF ILAS PRODUCTS

