

CIB-GN(12)

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Guidance Note on Product Recommendation for Long Term Insurance Business

According to Membership Regulation 3.5, the General Committee is issuing this Guidance Note on Product Recommendation for Long Term Insurance Business. This Guidance Note shall be read in conjunction with the Guidance Note on Conducting “Know Your Client” Procedures for Long Term Insurance Business. Members are asked to develop appropriate policies and procedures for supervising the business conduct, and to provide adequate training to their registrants and staff members to ensure due observance of the requirements.

To avoid any doubt, this Guidance Note is applicable to all classes of Long Term Insurance Business, i.e. including both Linked Long Term Insurance (“ILAS”) and non-Linked Long Term Insurance, whilst the section on “Recommendation in Writing” of this Guidance Note is **NOT** applicable to the following types of Long Term Insurance policies to be recommended:-

- (a) term insurance policies;
- (b) refundable insurance policies providing hospital cash, medical, critical illness, or personal accident cover;
- (c) yearly renewable insurance policies (without cash value) for critical illness or medical cover;
- (d) group policies.

Assessment

1. Prior to recommending any Long Term Insurance policies, Members should assess properly the information of the clients collected from conducting the “Know Your Client” procedures.
2. The assessment of the clients’ needs should refer to their financial circumstances, total protection needs and requirements as disclosed and duly recorded in the forms or instruments of the Members in conducting the “Know Your Client” procedures.
3. If the clients are covered by any existing Long Term Insurance policies that are in force, paid-up, suspended, under premium holiday or with contribution at a reduced amount, the Members should first assess and formulate an advice to the clients on the appropriate options to their existing insurance portfolios to satisfy any insurance needs and requirements identified, prior to formulating an advice of taking out new or additional Long Term Insurance policy.
4. Members should verify all available information and should satisfy themselves that the clients are financially capable to commit any extra funds to the options to be formulated, in particular, consideration should be given to the stability of income, target retirement age (or continuity of business), and liquidity of assets of the clients.
5. The assessment should be carried out again when Members are aware of changes in circumstances of the clients.

Product Selection

6. Members should put in place appropriate procedures to select from the market and present to clients suitable and adequate options that are available to meet their specific needs and financial circumstances.
7. Members should be both provider and product neutral in the selection procedures, that when more than one type of Long Term Insurance products, or a hybrid of different types, are available to meet clients’ specific needs and financial circumstances, Members should not confine the options to a single type of products or to products of a single provider.

8. Only in cases where the clients wish to make the investment decision AND are willing to bear the investment risk, or where the clients have specified it during the “Know Your Client” procedures to be their needs for fulfilling a particular scheme promulgated by the authorities, e.g. the “Capital Investment Entrant Scheme” of the Hong Kong Government, the Members may then include ILAS products in the recommendation.
- 8.1 When selecting ILAS policies, Members should prepare to explain to the clients:-
- (a) why the ILAS policies recommended are more suitable than the others;
 - (b) the basis of the recommendation of each alternative having regard to the information about the clients obtained through the “Know Your Client” procedures;
 - (c) the fees and charges involved, features of the recommended policies; and
 - (d) any possible disadvantages of the policies to the clients as can be reasonably assessed by Members.
- 8.2 ILAS policies with open architecture, i.e. policies with an open investment platform and with no underlying funds, should only be selected for clients who are:-
- (a) Professional Investors as defined in Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571), AND
 - (b) with tax/estate planning purposes, e.g. due to having residency outside Hong Kong, which should be clearly and explicitly specified during the “Know Your Client” procedures;
 - (c) that Members should retain proper documentation and supporting evidence for both of the above, and when the clients are with tax planning purposes, Members should obtain, at own cost or from the clients, written opinions from tax experts at the place of clients’ residency outside Hong Kong on the tax advantages of the clients’ procuring ILAS policies with open architecture, where Members should inform the clients in writing of any advice on tax to be given, and if none is given, a suitable disclaimer should be included.
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 Members 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 clients, who should be asked to confirm in writing whether they would agree to proceed and with which option presented. A copy of the confirmation should be provided to the clients for retention. The basis should include the factors considered, evaluation, and reasons for the recommendation, and for ILAS policies, those set out under 8.1 above.
11. In the recommendation of regular premium policies, Members should include, but without limitation, the following:-
- 11.1 the ratio of the regular premiums of the recommended products to the clients’ disposable income. When clients’ 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 amounts of the recommended products should use the figures as shown in the insurers’ illustration documents. When there are premiums for any riders to the recommended products not included in the illustration documents or where the premiums will change significantly over time, Members should draw this in writing to the clients’ attention so that the

clients can understand the nature of the premium to income ratio and take this into account;

(Note: Clients' disposable income should be worked out by taking into account the clients' income stream and existing financial commitments, e.g. living expenses of clients and their dependants, mortgage and tax payments, other insurance premium payments, as collected in the Needs Analysis.)

- 11.2 the financial commitment of clients, i.e. the total premiums payable for the full payment terms of the recommended products as shown in the insurers' illustration documents. When there are premiums for any riders to the recommended product not included in the illustration document or this type of premiums will change significantly over time, Members should draw this in writing to the clients' attention so that the clients can understand the total financial commitment; and
 - 11.3 whether the premium payment terms go beyond the clients' target retirement age, and in this case the clients' intended sources of fund to pay thereafter.
12. Before proceeding to arrange regular premium policies, Members should obtain a declaration by the clients that they are comfortable with the ratio, consent to the financial commitment, and where applicable, confirm their capability to pay premiums beyond their target retirement age, and when ILAS policies are involved, also with the fees and charges and the investment risks.
 13. In the recommendation of single premium policies, Members should include, but without limitation, the following:-
 - 13.1 the premium/liquid asset ratios, where the premiums are that of the recommended products and the amounts of liquid asset should be that identified during the "Know Your Client" procedures;
 - 13.2 the lock-up periods (i.e. when any charge or fee applicable for total or partial withdrawal or surrender of policy);
 - 13.3 if there are any premium financing, leverage, or gearing involved, the interest rate risk and the downside implications in cases of upsurge of those interest rates.
 14. Before proceeding to arrange single premium policies, the Members should obtain declaration by the clients that they are comfortable with the ratio and the lock-up period, and if applicable the downside implications, and when ILAS policies are involved also with the fees and charges and the investment risks.
 15. When insurance products of providers not authorized in Hong Kong are included in the recommendation, the Members should give the rationales of the inclusion.
 16. No other policy illustrations in any form other than the policy illustration documents prepared and provided by insurers, are allowed to be prepared, used, presented and/or provided to clients at any point of time.
 17. If it is the case that the clients do 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 clients, the Member should include an appropriate disclaimer in the recommendation.

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