

THE HONG KONG FEDERATION OF INSURERS

CODE OF PRACTICE FOR LIFE INSURANCE REPLACEMENT

The following process is intended to prevent the activity of those insurance agents/brokers who misinform or mislead clients into changing existing individual life insurances in a way which at the time of the change creates a real or potential disadvantage to the client. The assessment of this disadvantage may at times be subjective and therefore the success of the process in completely achieving its objective will depend on those involved acting in good faith and at all times in the best interests of the client. For the purpose of this Code, any reference to insurance agents/brokers shall include their responsible officers/chief executives and technical representatives.

1. Policy Replacement

- 1.1 Any transaction involving the purchase of life insurance is construed as a replacement if within 12 months before or after a new policy is effected, an existing life insurance policy:
- (a) has lapsed;
 - (b) is surrendered; or
 - (c) is converted to paid-up or extended-term insurance.
- 1.2 This list is not conclusive and may be expanded from time to time to include other forms of replacement. For the avoidance of doubt, internal replacement i.e. both the existing and new policies are issued by the same insurer, is covered by this Code.

2. Customer Protection Declaration

- 2.1 A Customer Protection Declaration ("CPD") (Appendix I) must be completed before the client agrees or makes a decision in relation to the purchase of a new life insurance policy. It is designed to:
- (a) discover any replacement being recommended and if so,
 - (b) ensure that the agent/broker has explained the important consequences; and
 - (c) ensure that the client fully understands the important consequences.
- 2.2 In the event that the agent/broker explains that there is no disadvantage attached to the change, then the agent/broker must give the reason for this conclusion in writing as fully as possible.
- 2.3 In this way, there is a record that the client has been informed of the real or potential disadvantages of the recommended replacement or has been given an explanation, as to why there is no disadvantage. Further, the agent/broker may be protected in the event of a subsequent accusation of malpractice as there is evidence that the policyholder has been advised accordingly.
- 2.4 The original of the CPD shall be kept by the selling office and a copy must be issued to:
- (a) the client together with the policy; and
 - (b) the insurer of the life insurance policy(ies) replaced/to be replaced ("the non-selling office") within 7 business days of the issue date of the new policy.

- 2.5 The Cooling-off Period of the new policy will be extended to 14 days after the date on which the CPD has been delivered to the non-selling office or otherwise stipulated in the Cooling-off Initiative issued by The Hong Kong Federation of Insurers ("the HKFI"), whichever date is later.
- 2.6 The copy CPDs shall be sent to the Authorized Representative and/or a designated addressee of the non-selling office. The CPDs can be delivered by post, courier, facsimile and/or emails.
- 2.7 The selling office shall maintain complete records of the dispatch of the CPDs, including copies of the CPDs, dispatch date and mode of delivery. These records may be required by the Insurance Agents Registration Board ("the IARB"), the self-regulatory broker bodies ("the broker bodies"), the Insurance Authority ("the IA") or the Life Insurance Council ("the LIC") of the HKFI in the process of investigation of a complaint.
- 2.8 In the cases of internal replacement, the insurer concerned should devise internal controls and measures to ensure it discharges its obligations both as the selling office and the non-selling office under this Code.

3. Identifying Twisting

- 3.1 Twisting is the making of inaccurate or misleading statements or comparisons to induce a policyholder to replace existing life insurance policy with other life insurance policy to the policyholder's disadvantage.

Client Initiated

- 3.2 The client may complain about suspected twisting. Any such complaint received by the HKFI or other party will be forwarded to the selling office which must investigate and follow the same process as if it had itself discovered a suspected or actual incident of twisting (see 3.3 – 3.5). The selling office must also write to the client to acknowledge receipt of the complaint and commit to notify the client within 30 days of receipt with the findings and any suggested arrangements.

Selling Office Initiated

- 3.3 The selling office has a duty to control the activities of its sales force. The office must therefore review the CPDs to ensure that its agents/the brokers are complying with the process.
- 3.4 If during the review the office discovers cases of suspected twisting, or has evidence to substantiate that existing policyholders may have suffered because of twisting by its agent/the broker, the office must investigate those cases and take action. If twisting has occurred, actions listed in 3.8 below should be taken as appropriate.
- 3.5 The office must recognize that the CPD will form an important part of any investigation that may arise and should therefore insist upon and provide training to help agents to give explanation as fully as possible in those cases where "no disadvantage" is claimed.

Non-Selling Office Initiated

- 3.6 If an office has evidence to substantiate that existing or ex-policyholders have suffered because of twisting by agents of other offices/brokers, it must investigate. If twisting has occurred, actions listed in 3.8 below should be taken as appropriate.

Actions to be Taken

- 3.7 Once twisting is identified as likely to have occurred, the offices concerned should attempt to reach agreement. This imposes an obligation on the offices to keep the client's interest foremost. Clients should be kept informed of any material facts or arrangement which may affect their interest. Agreement must be reached speedily within a period of 30 days after the identification of the twisting and any follow up actions or arrangement affecting the interest of the policyholders shall be completed within 45 days, i.e. the next 15 days.
- 3.8 If it is agreed that twisting has occurred:
- (a) The selling office must immediately:-
 - (i) report the agent to the IARB or the broker to the broker bodies or the IA as appropriate;
 - (ii) suspend the agent from selling any further business or suspend dealing with the broker on any further new business;
 - (iii) claw back the commission paid on the case/cases in question; and
 - (iv) write to the client and inform him that:-
 - he may have been sold policies unprofessionally;
 - in view of this he may wish to end the arrangements and reinstate the original policies;
 - he has the right to request the return of all paid premium on the new policy;
 - he should make a decision within 30 days;
 - the selling agent has been suspended and has no further authority to represent the selling office to the client; and
 - the selling office has suspended dealing with the broker on any further new business.
 - (b) The non-selling office should arrange terms for reinstatement of the policies that have been twisted, if the client so wishes. These terms must, to the maximum extent possible, allow the client to return to the same position he would have been in had the policies not been twisted.
- 3.9 If offices cannot agree that twisting has occurred, then the complaining client or office can refer the complaint to the IARB, the broker bodies or the IA as appropriate which will rule. If it is concluded that twisting has occurred, in addition to deciding on the appropriate disciplinary action against the agent/broker, the IARB, the self-regulatory broker bodies or the IA as appropriate would also advise the complainant accordingly of his right to reinstate his old policy(ies) and request the return of all paid premium on the new policy.

4. Role of the Life Insurance Council

- 4.1 The LIC will review this Code from time to time having regard to experience of its operation and developments in the insurance market.
- 4.2 If the LIC finds that an insurer has not complied with the process, it will:
- (a) seek cooperation from the office(s) concerned;
 - (b) endeavour to mediate among all parties concerned; and/or
 - (c) refer the case to the IA if there is concrete evidence showing non-compliance.

IMPORTANT DOCUMENT! PLEASE READ AND COMPLETE CAREFULLY!**重要文件! 請小心閱讀及填寫!****(1) —→ CUSTOMER PROTECTION DECLARATION****閣下可向保險代理/經紀索取中文版本, 本聲明書之中英文版均具同等效力**

This is an **IMPORTANT** part of the Code of Practice for Life Insurance Replacement issued by the Hong Kong Federation of Insurers and the Membership Regulations and Codes of Conduct of the self-regulatory broker bodies (i.e. The Hong Kong Confederation of Insurance Brokers and the Professional Insurance Brokers Association Limited), but does not form part of the application/proposal. *The Agent/Broker shall refer to the Explanatory Notes before completing this form.*

(2) Name of the Insurer : _____
 Name of Applicant/Proposer : _____
 Hong Kong Identity Card No. of Applicant/Proposer : _____
 Application/Proposal/Policy No. : _____

(3) SECTION A

1. Have you replaced or do you intend to replace any of your existing life insurance policies by the above mentioned application/ proposal in the past or the next 12 months? If yes, please write down the following information of the policy(ies) replaced/to be replaced.	o Yes (Please complete all sections)	o No (Please complete sections C & D only)						
<table border="0"> <tr> <td><u>Name of insurer(s)</u></td> <td><u>Policy Number(s)</u></td> </tr> <tr> <td>_____</td> <td>_____</td> </tr> <tr> <td>_____</td> <td>_____</td> </tr> </table>	<u>Name of insurer(s)</u>	<u>Policy Number(s)</u>	_____	_____	_____	_____		
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(4) SECTION B

The Agent/Broker shall help you assess the relative merits of the existing policy(ies) and the suggested replacement. However, you are advised to cross-check the real or potential disadvantages with the insurer(s) of the existing policy(ies). You are also advised not to cancel your existing policy(ies) until the new policy(ies) is/are issued.

2. The financial implication of the replacement: There is financial impact on replacing your existing policy(ies). Generally speaking the replacement cost is approximately two times the annual premium of your existing policy(ies). <i>Please consult the insurer(s) of your existing policy(ies) for detailed financial implication.</i>	o Real or potential disadvantages Approximately HK\$ [2 times the annual premium of the existing policy(ies)]	o No disadvantages (Agent/broker <u>must</u> give explanation below)
3. The insurability implication of the replacement: The new insurer may review your current state of health, occupation and recreational activities. If any significant change has occurred you may be denied some coverages or be charged a premium higher than the standard one.	o Real or potential disadvantages	o No disadvantages (Agent/broker <u>must</u> give explanation below)
4. The claims eligibility implication of the replacement: The new policy may have different policy provisions and also may result in a new start of the incontestability and suicide clause time periods. This could result in a claim being denied that would have been paid under the existing policy(ies).	o Real or potential disadvantages	o No disadvantages (Agent/broker <u>must</u> give explanation below)

(7) SECTION C

Declaration by the Applicant/Proposer

I declare that I have read and discussed the relevant section(s) of this Declaration with the Agent/Broker. If I tick "Real or potential disadvantages" in Section B, I declare that I understand and accept the financial and/or other implications of changing my existing insurance arrangement as explained by the Agent/Broker. I also declare that I have received a copy of the pamphlet titled "*Life Insurance Policy Replacement – What you need to know*" issued by the ~~Office of the Commissioner of Insurance~~ Insurance Authority.

I realize that, if I have not fully understood this Declaration, then in signing this Declaration I may be jeopardising my future rights of redress if I find later that I have been disadvantaged in taking out the new policy(ies).

I hereby authorize the Insurer to give the Insurance Agents Registration Board, the self-regulatory broker bodies, the Insurance Authority, the Life Insurance Council, the insurer of the policy that is being/has been replaced or other parties, as required for proper administration/ implementation/execution of the Code of Practice for Life Insurance Replacement or the Membership Regulations and Codes of Conduct of the self-regulatory broker bodies, a copy of this Customer Protection Declaration and any related records or information.

Signature of the Applicant/Proposer

Date (D/M/Y):

(Warning: Please do not sign this Declaration blank or leave any space blank.)**(8) SECTION D**

Declaration by the Agent/Broker

I declare that I have explained fully the above listed points and related implications of the decision of the Applicant/Proposer in regard to the existing policy(ies), and have not made any inaccurate or misleading statements or comparisons nor withheld any information which may affect the decision of the Applicant/Proposer.

Signature of the Agent/Broker_____
Agent/Broker's name in full_____
Insurance Agent/Broker Reg. No.

Date (D/M/Y) :

(effective 1/10/2002)