

**CIB-GN(4)**

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*(2<sup>nd</sup> revision effected from 1 January 2015)*

*(further revised on 13 October 2015, effective from 1 January 2016)*

**Guidance Note on Conducting “Know Your Client” Procedures for Long Term Insurance Business**

According to Membership Regulation 3.5, the General Committee is issuing this Guidance Note on Conducting “Know Your Client” Procedures for Long Term Insurance Business. To avoid any doubt or confusion, this Guidance Note is applicable to all classes of Long Term Insurance Business, i.e. including both Linked Long Term Insurance and non-Linked Long Term Insurance.

**Record-keeping and Verification**

1. Members should not rely upon insurers in record-keeping and verification of clients’ information, in particular the customer due diligence under the Guideline on Anti-Money Laundering and Counter-Terrorist Financing (“AML Guideline”).
2. Members should keep their own documentary records sufficient to demonstrate that the procedures for identification, needs analysis, and if applicable risk profile, have been followed up and through.

**Forms and Instruments**

3. Members should develop and use their own forms or instruments to conduct the procedures. Those using insurer’s forms or instruments for this purpose instead shall expect to be asked of how they have conducted the due diligence on product recommendation.
4. Some insurers may at their discretion accept insurance brokers’ needs analysis forms to be their Financial Needs Analysis (“FNA”) form, provided that such forms are in compliance with the requirements as set out in the latest version of the Initiative on Financial Needs Analysis (effective from 1 January 2016), Members may wish to refer to the said requirements when developing their forms or instruments. When Members’ forms are not accepted by individual insurers, this may result in the clients having to fill in similar information onto insurer’s FNA form (and also insurer’s Risk Profile Questionnaire (“RPQ”) for Linked Long Term Insurance). Members should adopt appropriate control and procedures to ensure that the information in the two sets of documents is consistent with each other.
5. The forms or instruments for identification, needs analysis, and risk profile if applicable, may be either presented as separate documents or consolidated into one single document. In any case, Members should ensure that the forms or instruments should be properly completed, dated and signed by both the clients and the intermediary with his/her identity clearly disclosed.
6. Clients’ circumstances may change over time. Members should conduct the necessary procedures whenever appropriate to update the information on their records, particularly when the circumstances of the clients are known to have changed significantly. In any case, if it is more than a year when the procedures for needs analysis (and risk profile if applicable) were last conducted, they should be conducted again before any product, including top-up to existing policy, should be recommended.
7. There may be cases where clients do not provide any or all parts of the information required in the forms or instruments. If Members would continue to serve the clients by arranging any contract of long term insurance, they should insert an appropriate warning statement in the language of the clients’ choice highlighting the potential pitfalls of their non-disclosure, and the clients should also be asked to sign and acknowledge their understanding of such warning.

### Identification

8. Personal particulars of individual clients should be recorded, and whenever necessary verified with copy of the documentary proof kept in file. They should include but not limited to: full name, date of birth, nationality, identity document type and number, residential address, and contact number(s).
9. When it is a trustee who will be the prospective applicant and/or the prospective policyholder, the identification procedures, as well as the procedures for the needs analysis (and if applicable those of the risk profile), should be conducted on the beneficiary owner.
10. In case of corporate clients, the AML Guideline asks that the following information should be obtained and verified: full name, date and place of incorporation, registration or incorporation number, registered office address and business address (if different).

### Needs Analysis

11. Members should recognize the importance of the need to identify and understand the clients' goals, needs, resources and priorities before they could come up with any suitable recommendations, that the Members should develop appropriate questions to find out such information of the clients' circumstances. The exceptions in terms of products cited in the Initiative on Financial Needs Analysis do not modify this duty as insurance brokers should be product-free when conducting this procedure.
12. In order to assess clients' needs, Members should ensure that they understand, among others, the clients':-
  - 12.1 existing and potential financial commitments (e.g. monthly living and family expenses) and liabilities (e.g. mortgage redemption) arising from their family and marital status, and from their own aspirations or lifestyle, including but not limited to the time horizon and the magnitude of those financial commitments and liabilities;
  - 12.2 income streams from their occupation, business, assets or others (e.g. spouse or child support or alimony), including but not limited to the stability, the sustainable period and the magnitude of those income streams, (e.g. target retirement age from a salaried job, target sales of the business or interest-earning assets or target closure of the business);
  - 12.3 types and values of liquid assets (i.e. those assets that can easily be turned into cash);
  - 12.4 different financial needs or objectives, priorities, circumstances or requirements, at least in terms of protection, saving, or investment;
  - 12.5 educational level attained, knowledge and experience in different financial products or assets;

The above should be suitably modified for corporate clients.

13. Members should ensure that the financial information of the clients to be collected would allow them to assess and to advise the clients on their capability to commit to any new or additional long term insurance policy, i.e. on whether the clients could afford to pay at the premium level for the full term of a regular-premium policy to be recommended, or whether the clients could afford to set aside a lump sum of liquid assets for the specified term of a single-premium policy. Special attention should be given to clients who are dependent financially on other person or with an unstable income, e.g. dividends/interest of financial assets.
14. Members should include specific questions, where appropriate, asking for details of all existing long term insurance policies which are owned by the clients or arranged through a trust and which are in-force, paid-up, suspended or under premium holiday.

### **Risk Profile**

15. This is related to giving advice on underlying funds or assets of the Linked Long Term Insurance policy. If Members are not engaged in Linked Long Term Insurance, or the clients are not going to consider any Linked Long Term Insurance, or they have concluded a written understanding with the Members that neither the Members nor their registrants would be required to advise on any underlying funds or assets of Linked Long Term Insurance policy, no risk profile procedures on the clients are required to be conducted under this Guidance Note. This shall not however affect the requirements of completing insurers' RPQ under the HKFI ILAS Requirements at the time of applying for Linked Long Term Insurance policy by the client.
16. Clients' risk profile would usually include their (i) investment objectives, (ii) investment knowledge and experience, (iii) preferred investment horizon, (iv) risk attitude and appetite, and (v) risk tolerance or capacity. Members should develop and use appropriate risk profile questionnaires to understand and record the clients' risk profile in this regard, and the risk profile procedures should be conducted whenever appropriate to update the record, in particular when the circumstances of a client are known to have changed significantly.
17. Over time, clients' circumstances and risk profiles may change, and so may the clients' funds portfolio under each Linked Long Term Insurance policy. Members may or may not be aware of the changes in the funds portfolio, as some clients may switch funds on their own initiative or directly with the insurers, without consulting or informing Members and/or their registrants. When Members and/or their registrants are not involved in the fund selection, they are not duty-bound to alert clients of any mismatch between their risk level of the portfolios and risk profiles, but when such mismatch is identified when the risk profile procedures are conducted under point 16 above, Members and their registrants should serve a health warning to the clients of the mismatch.

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