HONG KONG MONETARY AUTHORITY
香港金融管理局

Our ref: B1/15C
C2/5C

1 April 2022

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

<u>Use of Premium Financing to take out Long Term Insurance Policies</u>

I am writing to draw your attention to the attached "Circular on the supervisory standards and key requirements on the use of premium financing to take out long term insurance policies" issued by the Insurance Authority ("IA") today ("IA Circular"). The IA Circular, among other things, clarifies the supervisory standards and key requirements in the existing codes of conduct and guidelines for licensed insurance intermediaries when carrying on regulated activities under the Insurance Ordinance (Cap. 41) with respect to the use of premium financing, and introduces an "Important Facts Statement – Premium Financing" to enhance the disclosure on premium financing to customers.

In light of the unique banking environment and the role as a lender that authorized institutions ("AIs") and their subsidiaries may play in premium financing activities, the Hong Kong Monetary Authority ("HKMA"), having discussed with the IA and consulted the industry, hereby provides further guidance in the **<u>Annex</u>** to AIs in complying with the IA Circular as a licensed insurance intermediary, and when acting as a premium financing facility provider.

Alongside the requirements on the suitability assessment and risk disclosure on the part of licensed insurance intermediary, the guidance covers the aspects on cooling-off right and protection against risk of over-leveraging when AIs and their subsidiaries act as premium financing facility providers. In that capacity, AIs and their subsidiaries should be mindful of the cooling-off right of the customer under the insurance policy, and should also implement customer protection measure against risk of over-leveraging in their credit assessment.

AIs (and their subsidiaries as appropriate) should review and make necessary enhancements to their policies, procedures, controls and monitoring relating to premium financing activities, and provide sufficient training to their staff to ensure compliance with the standards and requirements set out in the IA Circular and the **Annex** by 1 January 2023.

If you have any question on this circular, please contact Ms Candy Tam at 2878-1292 or Mr Chris Wong at 2878-1450.

Yours faithfully,

Alan Au
Executive Director (Banking Conduct)

Encl.

c.c. Insurance Authority
(Attn: Ms Carol Hui, Executive Director (Long Term Business)
Mr Peter Gregoire, Head of Market Conduct and General Counsel)

Annex

Supervisory Standards and Key Requirements on the Use of Premium Financing to take out Long Term Insurance Policies

Suitability assessment

Regardless of whether premium financing will be used, AIs have been required to ensure that the insurance policy recommended to the customer is suitable to the customer's circumstances including needs and resources. In this connection, AIs are reminded to ensure that the insurance policy is suitable to the customer's needs and objectives, including but not limited to the amount of life protection need as evaluated in the financial needs analysis, and is affordable to the customer.

To assess the affordability of the customer in respect of using premium financing, AIs should take into account available information and comply with paragraph 2 of the IA Circular, including the requirement on explaining such affordability assessment. For AIs that act in the dual capacity as the licensed insurance intermediary and as the proposed premium financing facility provider, they are expected to have access to the relevant information of the premium financing facility and therefore the alternative arrangements in paragraph 3 of the IA Circular would not be applicable to them. These AIs should take into account the use of premium financing in the affordability assessment prior to the application for premium financing.

As stipulated in paragraph 8 of the IA Circular, as part of the assessment, AIs should, among other things, assess whether the customer using premium financing faces a risk of over-leveraging, and should not recommend a policy that would amount to risk of over-leveraging unless there is sufficient justification. The justification should be clearly explained to the customer and documented as part of the reasons for recommendation of the policy.

Risk disclosure

For AIs that act in the dual capacity as the licensed insurance intermediary and as the proposed premium financing facility provider, they should sufficiently and appropriately disclose and explain to the customer the key features and risks of the premium financing facilities, including the "Important Facts Statement – Premium Financing" and where applicable, other relevant terms and conditions, risks and features that may be involved with the use of premium financing, prior to the application for premium financing.

Cooling-off right

AIs that offer premium financing should treat customers fairly in handling customer's cooling-off request and be mindful of imposing any conditions and/or costs (e.g. early repayment fee of the premium financing facility) on the customer before the expiry of the cooling-off period which may deter the customer from exercising the cooling-off right. They should also ensure that the returning of any net proceeds (after netting of the outstanding amount and the interest of the premium financing facility) is processed promptly. For the avoidance of doubt, this requirement is applicable to AIs and their subsidiaries that act in the capacity as a premium financing facility provider.

Protection against risk of over-leveraging

Paragraph 24.1 of the Code of Banking Practice stipulates that credit assessment of AIs should take into account the customer's ability to repay. In this connection and as a customer protection measure against risk of over-leveraging, AIs should take into consideration, among other things, whether the ratio of the loan amount of the premium financing facility to the customer's existing own financial resources is within a reasonable level in their credit assessment for cases where a risk of over-leveraging exists. AIs should also ensure that such ratio is disclosed to the customer before the customer accepts the premium financing facility offer. For the avoidance of doubt, this requirement is applicable to AIs and their subsidiaries that act in the capacity as a premium financing facility provider.