



HONG KONG MONETARY AUTHORITY  
香港金融管理局

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16 July 2013

The Chief Executive  
All Authorized Institutions

Dear Sir / Madam,

**Investment-Linked Assurance Schemes (ILAS)**

I am writing to draw your attention to an education booklet recently published by the Investor Education Centre (IEC) to help the public understand more about ILAS.

The booklet highlights the features (including fees and charges) and risks of ILAS, the new regulatory measures on ILAS, as well as the role of ILAS in financial planning.

Authorized institutions which offer ILAS should put in place an arrangement to make available copies of the booklet to customers who are interested in buying ILAS.

The booklet can be found on the IEC website ([www.hkiec.hk](http://www.hkiec.hk)). Please also contact the IEC (Tel: 2700-6000) for copies of the booklet.

Yours faithfully,

Vincent Lee  
Director-General (Enforcement)

c.c. IEC (Attn: Mr. Miles Larbey, General Manager)

Encl.

## Understand Investment-linked Assurance Schemes and the New Regulatory Measures



The Investor Education Centre is supported by the financial regulators



保險業監理處  
Office of the Commissioner  
of Insurance



HONG KONG MONETARY AUTHORITY  
香港金融管理局



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## Smart tips if you are thinking of buying an investment-linked assurance scheme

- 1 An investment-linked assurance scheme (ILAS) is a long-term investment-cum-life insurance product. Be aware of its long-term features e.g. upfront charges, early surrender or withdrawal penalties and loyalty bonuses (if you meet certain conditions).
- 2 The policy value (and maybe also death benefit<sup>1</sup>) is subject to investment risks and market fluctuations. The return of an ILAS may vary substantially or even become negative (i.e. losses).
- 3 Understand the fees and charges which may reduce the amount available for investment. You should always compare the overall cost of an ILAS product with buying life insurance cover and investing in the same selected funds separately.
- 4 Buying an ILAS is different from investing in a fund<sup>2</sup>. With an ILAS product, you are buying a life insurance policy, not the underlying assets.
- 5 In general, ILAS are designed for consumers with the dual objective of investment and estate planning as they are a packaged product that includes both investment and insurance elements. Be sure to know your needs when considering making ILAS as part of your financial plan. ILAS products are not suitable for people with short- or medium-term liquidity needs.
- 6 Understand the regulatory requirements that are applicable to the sale of ILAS.
- 7 Your intermediary will receive remuneration in respect of your ILAS policy. Ask them how much they will get. They should disclose this information to you. If you are not satisfied with or do not fully understand the information provided, then you should consider carefully whether it is appropriate for you to buy the ILAS product or whether you should buy the ILAS product through that intermediary.
- 8 Check the offering documents and the Important Facts Statement (IFS) carefully and understand the product key features and risks. You will be asked to confirm you understand and agree with the information provided when you sign the IFS.

<sup>1</sup> "Death benefit" means the lump sum payable to the beneficiary if the life insured dies.

<sup>2</sup> "Funds" can be set up in various forms such as mutual funds and unit trusts.

## Understand investment-linked assurance schemes

Products available in the market such as investment plans, saving plans, investment-linked plans and fund plans with a lock-in period may be ILAS products.

An ILAS has the following typical features:

- it is a life insurance policy issued by an insurance company;
- it provides you with life insurance cover plus investment features;
- its policy value is determined by the insurance company based on the performance of the “underlying or reference funds<sup>3</sup>”; and
- the insurance company owns the underlying assets of an ILAS product and you do not; you have the ownership of the policy.

ILAS products are generally designed for consumers who have a long-term investment horizon and a dual objective of investment and estate planning, intend and are able to pay the premiums for the whole of the policy term and accept that their death benefits are subject to investment risks.

<sup>3</sup> The term “underlying fund(s)” is used by the ILAS issuer in the event that it has disclosed in the offering document that it will be investing the net premium received from the ILAS customers into the funds corresponding to the investment options as selected by the ILAS customers for such ILAS issuer’s asset liability management. Otherwise, the ILAS issuer adopts the term “reference fund(s)”.

## ILAS products may vary by

- the form of death benefit e.g. “increasing death benefit” (basic sum insured plus policy value), “minimum death benefit” (the greater of the basic sum insured and policy value) or a specified percentage of policy value as death benefit (e.g. 101% of policy value);
- the structure of fees and charges e.g. at scheme, investment options (if any) and / or underlying funds levels; and/or
- the mode of contribution e.g. single, regular or both.

Buying an ILAS product is not the same as investing in a fund. It is important for consumers to understand the product’s features and risks and know how to differentiate an ILAS from other financial products.



## Know ILAS features and risks

Always read the offering documents (including the Product Key Facts Statement (Product KFS)) and the IFS to understand the features and risks of any ILAS product you are considering. Generally speaking, ILAS products have the following features and risks:

- Irrespective of the assumed rate of return shown in the illustration document, the actual return could fluctuate significantly or even become negative (i.e. losses). You should not rely upon the assumed investment return in making investment decisions.
- As policy value (and maybe also death benefit) is subject to investment risks and market fluctuations, it may be significantly less than the premiums paid or not sufficient to meet your insurance needs.
- Due to various fees and charges levied by the insurance company on the ILAS product, the overall return on the ILAS may be lower than that of direct investments in the underlying / reference funds.
- Upfront fees and charges may reduce the amount of premium made available for investment, especially in the early policy years. In some cases, such fees could be significant.
- You may be entitled to a loyalty or special bonus if you meet certain conditions, such as maintaining the policy for a number of years.
- Product issuers may have sole discretion under the contract to determine the investment returns of certain ILAS policies, and may apply a downward/negative market value adjustment.
- Some ILAS products offer multiple death benefit options for consumers to choose from. Insurance charges may be levied on some of these options and may increase significantly during the policy term due to the age of the insured and reduce the amount that may be made available for investment.
- In general, ILAS products offer you a range of investment options to choose from and allow you to switch between these options where switching charges may be applicable. These investment options are linked to underlying / reference funds. Any investments made by the insurance company in the underlying / reference funds belong to the insurance company, not you.

## Compare ILAS and funds

Whether an ILAS product or direct investment in a fund is appropriate choice depends on your financial objectives and circumstances. It is important however to know the differences.

| ILAS   | Funds  |
|--|--|
| <b>Your status as a consumer</b>   |  |
| <p>You are a policyholder of an insurance contract and have contractual rights and obligations vis-a-vis the insurance company under the contract.</p> <p>Specified beneficiary(ies) would be entitled to a death benefit linked to the performance of the underlying / reference funds corresponding to your selected investment options.</p> | <p>You are a unitholder / shareholder of the fund.</p> <p>You have proprietary interest in the fund which will become part of your estate if you pass away.</p>  |
| <b>Ownership of underlying assets</b>  |  |
| <p>The insurance company, being the ILAS issuer, owns the underlying assets.</p> <p>You do not have any right over the underlying / reference funds. Any recourse is against the insurance company. You have a legal claim over the value of the policy.</p>   | <p>You own the fund which, in turn, owns the underlying assets of the fund. Your ownership right is in proportion to the units held by you to the total number of units in the fund.</p> <p>You may lay claims to the fund units you hold.</p> |
| <b>Segregation / independent custody of underlying investments</b>   |  |
| <p>While the insurance company owns the underlying assets, these assets are, by law, kept in a separate account and can only be used to meet the claims of ILAS' policyholders or beneficiaries. Such assets are not maintained by independent trustees / custodians at arm's length from the insurance company.</p>                           | <p>Underlying investments of a fund are generally held by an independent trustee/custodian on behalf of the fund.</p>  |
| <b>Investment term</b>   |  |
| <p>An ILAS is designed for people with a long-term investment horizon and the ability to afford payment of the entire premium payment term.</p>  | <p>The investment term is more flexible.</p>   |

## Compare ILAS and funds

| ILAS  | Funds | ILAS  | Funds |
|---|-------|---|-------|
| <p style="text-align: center;"><b>Determination of investment return</b></p> <p>The return in respect of the investment options is determined by the insurance company pursuant to the policy provisions.</p> <p>An ILAS' performance may or may not make reference to the performance of the underlying / reference funds corresponding to the investment options you select, depending on the terms and conditions of the ILAS.</p>   |       | <p style="text-align: center;"><b>Key risks you may face</b></p> <p><b>Scheme level:</b></p> <ul style="list-style-type: none"> <li>■ Credit risk of the insurance company</li> <li>■ Early termination risk</li> </ul> <p><b>Underlying / reference funds level:</b></p> <ul style="list-style-type: none"> <li>■ Counterparty risk</li> <li>■ Market risk</li> <li>■ Management risk</li> <li>■ Foreign exchange risk</li> <li>■ Interest rate risk</li> <li>■ Regional risk</li> </ul> <p><b>Fund level:</b></p> <ul style="list-style-type: none"> <li>■ Counterparty risk</li> <li>■ Market risk</li> <li>■ Management risk</li> <li>■ Foreign exchange risk</li> <li>■ Interest rate risk</li> <li>■ Regional risk</li> </ul>   |       |
| <p style="text-align: center;"><b>Typical fees and charges</b></p> <p><b>Scheme level:</b></p> <ul style="list-style-type: none"> <li>■ Initial charge (where applicable)</li> <li>■ Surrender charge</li> <li>■ Withdrawal charge</li> <li>■ Administration / management charge</li> <li>■ Insurance charge (where applicable)</li> </ul> <p><b>Investment options level:</b></p> <ul style="list-style-type: none"> <li>■ Management fee</li> <li>■ Bid-offer spread (where applicable)</li> </ul> <p><b>Underlying / reference funds level:</b></p> <ul style="list-style-type: none"> <li>■ Management fee</li> <li>■ Performance fee (where applicable)</li> <li>■ Switching charge (where applicable)</li> <li>■ Trustee and custodian fee</li> </ul> |       | <p><b>Fund level:</b></p> <ul style="list-style-type: none"> <li>■ Subscription fee</li> <li>■ Management fee</li> <li>■ Performance fee (where applicable)</li> <li>■ Redemption / switching charge</li> <li>■ Trustee and custodian fee</li> <li>■ Bid-offer spread (where applicable)</li> </ul> <p style="text-align: center;"><b>Penalty for early surrender / redemption</b></p> <p>Charge or penalty may be incurred upon early surrender, partial withdrawal, termination of the policy or suspension of / reduction in premium. This may result in significant or total loss in principal and other benefits under the policy e.g. death benefits and bonuses, especially in the initial years of the policy.</p> <p>You may need to pay a redemption charge, which is a certain percentage of your redemption amount.</p> |       |
|   |       | <p style="text-align: center;"><b>Cooling-off period</b></p> <p>You are entitled to a cooling-off period during which you may cancel the policy and recover your premium paid (subject to market value adjustment, if any).</p> <p>You are not entitled to a post-sale cooling-off period.</p>  |       |

## ILAS product as part of your overall financial plan

Financial planning is an active and continual process of holistically setting, pursuing and reviewing your financial goals and preparing for unexpected events in life through proper management of your finances.

To assess whether ILAS is the type of product which is suitable as part of your overall financial plan, you should

- ✓ set your financial goals including know your needs e.g. whether you have a dual objective of investment and estate planning
- ✓ understand your time horizon, e.g. do you have a short-, medium- or long-term investment horizon? ILAS are long-term financial products;
- ✓ assess your risk profile, e.g. decide if you are willing to have your policy value or death benefit subject to investment risks, and assess the level of risk you can tolerate;
- ✓ examine your liquidity needs, e.g. be clear that you do not have short- or medium-term liquidity needs that may jeopardise your long-term commitment to an ILAS; and
- ✓ consider alternatives. Understand the pros and cons, as well as the overall level of fees and charges of an ILAS product, compared with direct investment (e.g. through mutual funds or unit trusts) in the underlying assets of the product and taking out a life insurance policy separately.

To decide whether a particular ILAS product suits you, you should consider, among other things,

- ✓ whether the nature and features of ILAS products and insurance cover will be suitable for and adequate in meeting your needs
- ✓ whether the total fees and charges are acceptable to you especially if you may need to surrender the policy early
- ✓ whether the ILAS' policy term aligns with your investment horizon
- ✓ whether you are able or intend to make contributions for the whole of your chosen premium term particularly if the ILAS you choose has regular premium payment obligations

## Regulatory measures designed to protect you

### How are ILAS products regulated?

ILAS products and their offering documents, illustration documents and marketing materials must be authorized by the Securities and Futures Commission (SFC) before they can be offered to the public in Hong Kong, unless an exemption under the Securities and Futures Ordinance (SFO) applies.

The investment options of ILAS products offered for consumers to select may link to retail funds that are authorized by the SFC pursuant to the Code on Unit Trusts and Mutual Funds and other portfolios that are internally managed by the insurance company on a discretionary basis.

Insurance companies issuing ILAS policies are authorized and regulated by the Insurance Authority (IA).

Under the Insurance Companies Ordinance (ICO), any persons selling or advising on insurance products are required to be appointed insurance agents or authorized insurance brokers.

The registration of insurance intermediaries and complaints about their misconduct are handled by three self-regulatory organisations (SROs) approved by the IA:

- Insurance Agents Registration Board (IARB) set up under the Hong Kong Federation of Insurers (HKFI): Insurance agents including banks and their staff who sell ILAS as agents of insurers
- The Hong Kong Confederation of Insurance Brokers (CIB): Insurance brokers
- Professional Insurance Brokers Association (PIBA): Insurance brokers

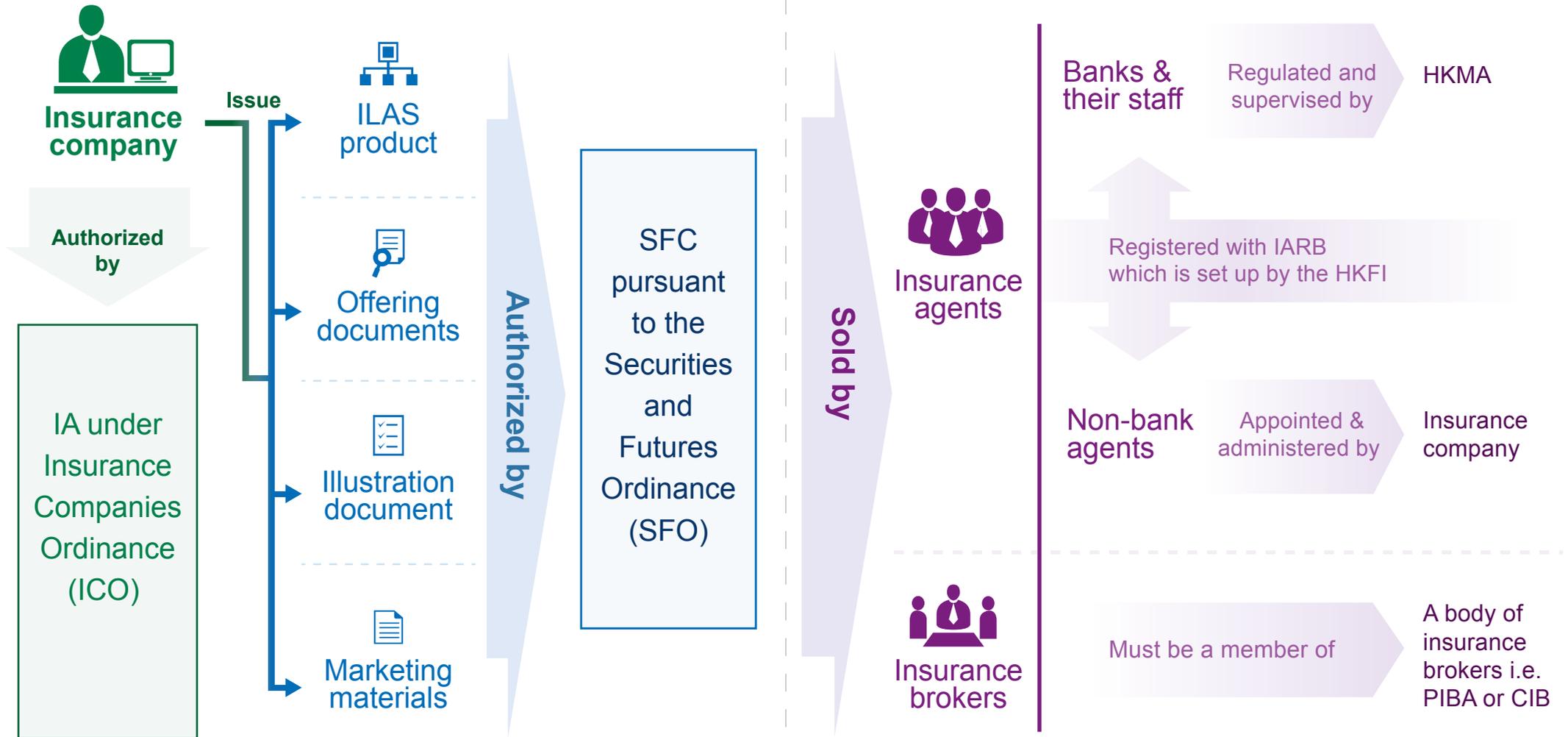
In selling ILAS products, banks and their staff are regulated and supervised by the Hong Kong Monetary Authority (HKMA).

### Regulatory mapping

## Issuer

## Product authorization

## Intermediaries' regulation



## Regulatory measures introduced in 2013

Hong Kong's financial regulators and HKFI have introduced a number of measures to enhance the disclosure and sale of ILAS products to further protect you throughout the sales process.

### By 30 June 2013

A new document Important Facts Statement (IFS) must be provided at the point of sale for all ILAS products or top-up premium application to increase clients' awareness of some important facts of the product and their right to ask about the remuneration receivable by the intermediary in selling this product.

Banks should make compulsory pre-sale disclosure in writing of monetary and non-monetary benefits receivable by the bank and / or any of its associates from the ILAS issuer in selling the ILAS product. Insurance agents or brokers should disclose the remuneration clearly if asked by clients.

ILAS issuers i.e. insurance companies are required to conduct an audio-recorded post-sale call for all ILAS buyers (except sales by banks because the sale process is audio-recorded) to confirm that they understand the important product features after product sale, if the sale process is not conducted at the insurance company's office and not recorded.

### By 30 September 2013

Product Key Facts Statement (Product KFS) of all new ILAS must comply with the enhanced disclosure requirements in order to continue to be marketed to the Hong Kong public.

Generally speaking, intermediaries selling ILAS, whether they are banks, insurance agents or brokers, should, among other things, have sufficient understanding of the products' nature and structure, conduct financial needs analysis and risk profile assessment for clients to ensure product suitability for the client, and explain product risks and features to clients.

Note: Intermediaries selling ILAS are registered with and/or regulated by different financial regulators or SROs. Therefore, different requirements apply depending on what type of intermediary you are dealing with.

# Pre-sale regulatory measures

Before considering buying an ILAS, you should look, among other things, at the offering documents, including the Product Key Facts Statement (Product KFS).

The disclosure of ILAS' Product KFS has been enhanced.

What additional information does this Product KFS disclose?

1

It will remind you ILAS are not suitable for consumers with short- and medium-term liquidity needs.

Any new information about the fees and charges?

3

# Find useful information in enhanced Product KFS

The Product KFS includes a new disclosure which specifies the total fees and charges at policy level in buying an ILAS as a percentage of the premiums paid

Is this the actual percentage of premium I will pay to the insurance company?

4

5

No. It is calculated based on certain assumptions.

The actual percentage may change depending on your personal circumstances.

It will be higher if the premium amount is lower, the sum insured is higher and/or your selected underlying investments are making losses.

2

6

## Pre-sale regulatory measures



## Find useful information in enhanced Product KFS



### Important points to note

- Read carefully the offering documents including the **Principal Brochure** and **Product KFS** for detailed product features and risks
- Understand how the expected surrender values are calculated and illustrated in the personalised **illustration document** provided to you prior to signing of the application form. The rates of returns shown in the illustration document are assumed and do not represent guaranteed investment performance or actual past performance.
- You have the **right to ask your intermediary about the remuneration** they will receive in respect of your ILAS policy and how much. This is a very important piece of information for you before investing in the ILAS.
- If you are **not satisfied with or do not fully understand** the information provided in respect of the product features, risks or intermediaries' remuneration, then you should **consider carefully whether it is appropriate for you to buy the ILAS product or whether you should buy the ILAS product through that intermediary.**

# Point-of-sale regulatory measures

A few days later

Having looked at the offering documents, I find this ILAS product suits my needs.

What are the next steps if I want to buy it?



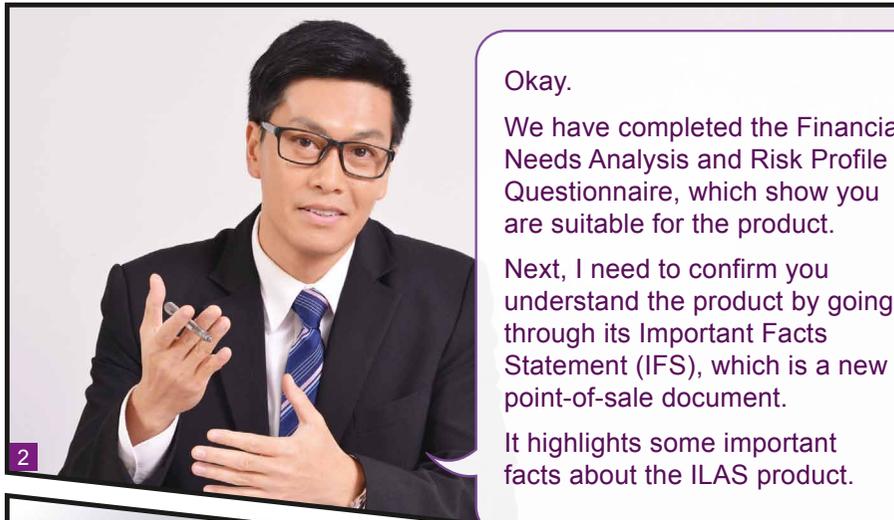
1

Okay.

We have completed the Financial Needs Analysis and Risk Profile Questionnaire, which show you are suitable for the product.

Next, I need to confirm you understand the product by going through its Important Facts Statement (IFS), which is a new point-of-sale document.

It highlights some important facts about the ILAS product.



2

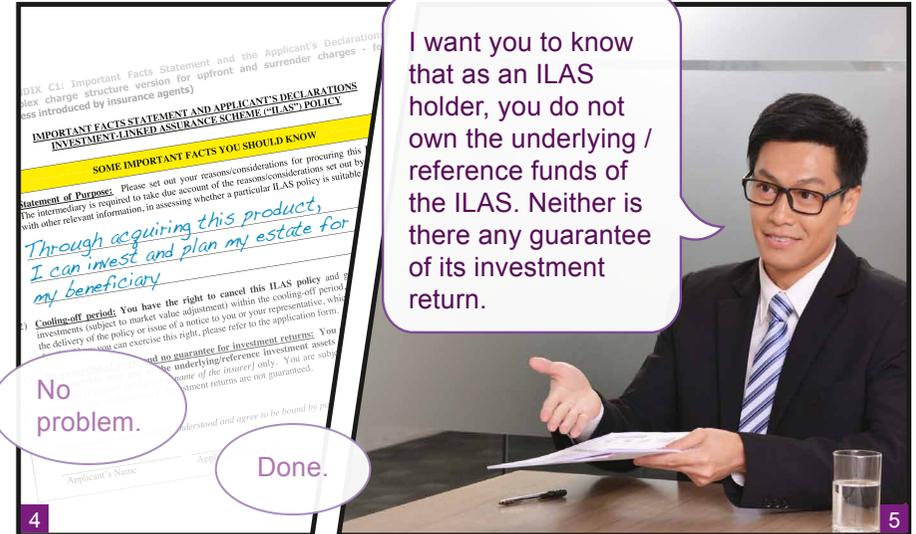
Okay.

First of all, please set out your reasons of buying the ILAS in the IFS?



3

Go through Important Facts Statements when buying an ILAS



I want you to know that as an ILAS holder, you do not own the underlying / reference funds of the ILAS. Neither is there any guarantee of its investment return.

No problem.

Done.

4

5

I also want to draw your attention to the ILAS' long-term features.

An upfront charge will be deducted from the premiums you pay and will reduce the amount available for investment.

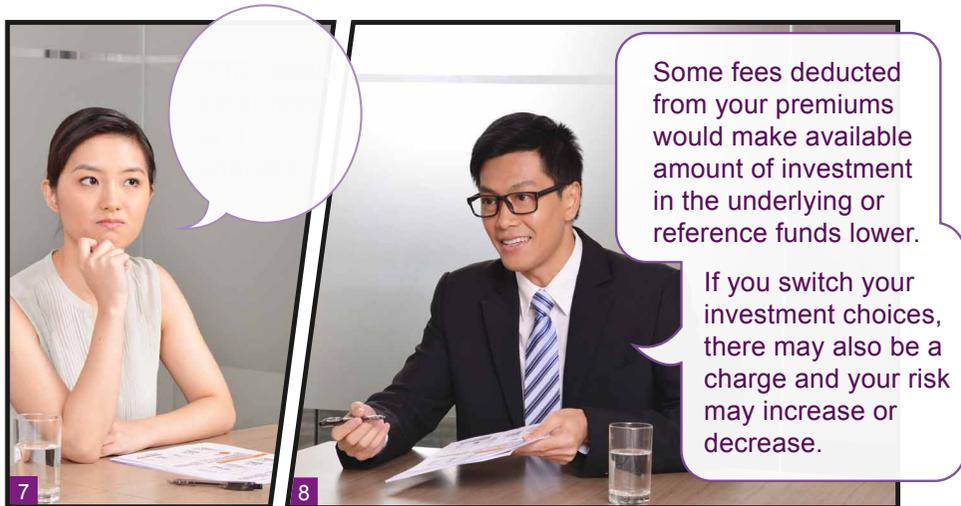
An early surrender or withdrawal penalty and possible loss of bonuses will apply if you terminate or surrender the policy early.

You will enjoy a loyalty bonus if you meet the conditions set out in the offering documents.



6

## Point-of-sale regulatory measures



Some policies allow a premium holiday. But it does not mean that you are only required to make premium contribution during the initial contribution period.

Also, all relevant fees will continue to be deducted and may therefore reduce the policy value significantly.

Also, if you fail to pay premiums or your policy value is very low or negative or does not meet the minimum prescribed value, it may trigger automatic early termination of your policy. You may lose all your premiums paid or benefits.

## Go through Important Facts Statements when buying an ILAS



\* See Note at the bottom of page 13. While all insurance intermediaries are required to go through the IFS with clients, the order of important facts explained may vary from one intermediary to another. Disclosure of remuneration is mandatory by banks while insurance brokers or agents have an obligation to answer clients' questions on remuneration.

### Important points to note

- **Whenever in doubt**, check and clarify product details with your intermediary to ensure you fully understand the product features.
- **Don't sign any blank document**. Your signature means that you have read and understood the information about the ILAS product.
- **If a senior in your family considers committing to an ILAS product**, offer assistance to help him/her avoid buying an unsuitable product, e.g. one with a long policy term.

## Post-sale regulatory measures

Three days later

Hello, I'm calling on behalf of ABC, an ILAS product issuer.

Are you Ms Ada Shum who has recently purchased an ILAS product issued by our firm?

Yes, I am.  
Why do you call me?

It is a regulatory requirement for us, the ILAS issuer, to protect your rights by making a post-sale call to you within the 5th working day after the issue of a policy.

Do you have about 10 minutes for me?

First, could you confirm if the objective for you to buy the product is to invest and plan your estate for the beneficiary?

Yes.

That's true.

Confirm to ILAS issuer your understanding of the policy

Next, may I ask you some questions to confirm you understand the major clauses of the policy<sup>4</sup>?

Please.

Issuer asks questions....

... Thank you for your confirmation.

Can you tell me when the 21-day cooling-off period ends?

Sure. As a notice was issued on 28 June to inform you that your policy is available, the cooling-off period will expire on 19 July.

Before that, you can change your mind and get back the money you have invested, subject to market value adjustment.

<sup>4</sup> For the details of the questions asked, please refer to HKFI circular "Updated Requirements Relating to the Sale of Investment Linked Assurance Scheme ("ILAS") to Enhance Customer Protection".

### Important points to note

- It may not be in your best interest to wait until the end of the cooling-off period to decide on purchase of an ILAS policy. Part of your premium paid may be deducted due to market value adjustment (MVA) although the MVA shall not include any allowance for expenses or remuneration for issuing the contract.
- You should **keep a copy of every document you have signed** for purchasing the ILAS. You should **continue to monitor** the performance of the underlying investments and if necessary consider changing your investment options.



**PRODUCT KEY FACTS**  
(Product name and type, e.g. ABC ILAS Plan) (Date)

(Issuer's name and logo e.g. ABC Insurance Company)

**This statement provides you with key information about this product. This statement is a part of the offering document. You should not invest in this product based on this statement alone.**

**Quick facts**

|                               |       |  |       |
|-------------------------------|-------|--|-------|
| Name of insurance company:    | [ • ] | Policy currency:   | [ • ] |
| Single or regular premium:    | [ • ] | Min investment:  | [ • ] |
| Regular premium frequency:    | [ • ] | Max investment:  | [ • ] |
| Minimum premium payment term: | [ • ] | Death benefit:   | [ • ] |
| Period with surrender charge: | [ • ] | [e.g. 101% of policy value OR premium paid less prior withdrawal, whichever is higher] |       |
| Governing Law of policy:      | [ • ] |  |       |

**Important**

- This investment linked assurance scheme ("ILAS policy") is a long-term investment-cum-life insurance product. It is only suitable for investors who:
  - [state if the principal will be at risk]
  - [state how long investors should be prepared to hold the investment]
  - [state other key characteristics of the product to help investors determine whether it is suitable for them]
  - have both investment and estate planning objectives as it is a packaged product that includes both investment and insurance element with death benefits payable to third party beneficiaries.
- This ILAS policy is not suitable for investors with short- or medium- term liquidity needs.
- Fees and charges –**  
 For ILAS policy with only one premium option: [Up to] [•] % of your premiums [after taking into account all applicable (non-discretionary) bonuses/rebates/other similar features]] will be paid to ABC Insurance to cover all the fees and charges at the ILAS policy level, of which [•] % is the cost of [life / insurance / only if there is obligatory protection on top of life] protection, and this will reduce the amount available for investment.  
 For ILAS policy with multiple premium options: The percentage of your premiums [after taking into account all applicable (non-discretionary) bonuses/rebates/other similar features]] paid to ABC Insurance to cover all the fees and charges at the ILAS policy level is shown in the table below. This will reduce the amount available for investment.

| Premium option  | Percentage of total premiums for covering the total fees and charges at the ILAS policy level                                      |
|-----------------|--|
| Single premium  | [Up to] [•] %, of which [•] % is the cost of [life / insurance / only if there is obligatory protection on top of life] protection |
| Regular premium | [Up to] [•] %, of which [•] % is the cost of [life / insurance / only if there is obligatory protection on top of life] protection |

ABC ILAS Plan

**Important (Cont.)**

- Fees and charges (Cont.) –**  
 Please note that the above figure(s) are calculated based on the following assumptions: (a) the life insured is non-smoking 40-year-old male (with a sum insured of [•]); (b) the payment of [single premium of (HKD)1,000,000 or the minimum required single premium of the ILAS policy, whichever is higher] / regular premium of (HKD)100,000 or the minimum required regular annual premium of the ILAS policy, whichever is higher] per annum; (c) you hold your ILAS policy for [insert the number of years in accordance with the Relevant Period] years; (d) an assumed rate of return of 3% per annum throughout [•] years; (e) any optional supplementary benefits are not included; and (f) there is no early withdrawal / termination of your ILAS policy.  
 [Where applicable]: (You must understand that these ILAS level charges are on top of, and in addition to, the underlying funds' level charges). The above figure(s) do(es) not take into account any early surrender / withdrawal charges.  
 The above percentage(s) of your premiums for covering the total fees and charges are calculated based on the assumptions above for illustration purposes. The actual percentage(s) may change depending on individual circumstances of each case, and will be significantly higher if the premium amount is lower and/or the sum insured is higher.
- Long-term features –**  
**Upfront charges:**  
 (a) [Up to] [•] % of the / [All] premiums you pay for the first [•] policy years will be deducted upfront as charges and will not be available for investment. This means that the remaining amount of premiums available for investment may be [0] % of your premiums paid in this period.  
 As an illustration, this means that for each (HKD)1,000 of premiums you pay each year, the premiums available for investment (after deduction of all upfront charges only) are as follows:

| Policy Year | Premiums you pay | Premiums available for investment (after deduction of all upfront charges only) |
|-------------|------------------|---|
| 1           | (HKD)1,000       | (HKD) [•] [•] %   |

You should note that the above illustration merely shows the impact of upfront charges on the premiums available for investment and does not reflect the impact of any other applicable fees and charges.

**Early surrender / withdrawal charges:**  
 (b) There will be an early surrender or withdrawal charge of up to [•] % of the [policy value / value of [•] Account / withdrawal amount] in case of [policy termination / surrender / partial withdrawal / suspension of or reduction in premium payment] within first [•] years. [You may also lose your entitlement to loyalty and [•] bonuses.]

## Important - 2

Fees and charges states clearly,

- the total fees and charges in investing in an ILAS as a percentage of your premiums to be paid at policy level.

The percentage is calculated based on certain assumptions for illustration purposes. The actual percentage of your premiums for covering the fees and charges may vary depending on individual circumstances of each case, e.g. your circumstances and the premium amount and the sum insured of your policy.

## Important - 3

Long-term features explains

- certain percentage of your premiums may be deducted as upfront charges and this may reduce the amount available for investment in early policy years;
- there may be an **early surrender / withdrawal charge** of up to a percentage of the policy value (or other basis depending on the feature of the ILAS) in case of policy termination / surrender / partial withdrawal / suspension of or reduction in premium payment.

ABC ILAS Plan

**Important (Cont.)**

- Long-term features (Cont.) –**  
**Loyalty bonuses:**  
 (c) You will be entitled to a loyalty or special bonus of up to [•] % of the [policy value / value of [•] Account / first year premiums paid / total policy fees paid] if you keep your ILAS policy for [•] years.
- Intermediaries' remuneration**  
 Although you may pay nothing directly to the intermediary who self-distributes this ILAS policy to you, the intermediary will receive remuneration which, in effect, will be borne out of the charges you pay. You should ask your intermediary before taking up your ILAS policy to know more about the level or amount of the remuneration that the intermediary will receive in respect of your ILAS policy. If you ask, your intermediary should disclose the requested information to you.  
\* "Underlying funds" can be used by an Authorized Insurer in the event that it has disclosed in the offering document that it will be investing the net premium received from the scheme participants into the funds corresponding to the investment options as selected by the scheme participants for each Authorized Insurer's asset liability management. Otherwise, the Authorized Insurer should adopt the term "reference funds".

**What is this product and how does it work?**

- This product is an investment-linked assurance scheme. It is a life insurance policy issued by ABC Insurance. This is not a fund authorised by the SFC pursuant to the Code on Unit Trusts and Mutual Funds ("UT Code").
- The premiums you pay, after deduction of any applicable fees and charges of your ILAS policy, will be invested by ABC Insurance in the "underlying funds" you selected (see below) and will accordingly go towards accretion of the value of your ILAS policy. Your ILAS policy value will be calculated by ABC Insurance based on the performance of your selected underlying funds\* from time to time and the ongoing fees and charges which will continue to be deducted from your ILAS policy value.
- Note, however, that all premiums you pay towards your ILAS policy, and any investments made by ABC Insurance in the underlying funds\* you selected, will become and remain the assets of ABC Insurance. You do not have any rights or ownership over any of these assets. Your recourse is against ABC Insurance only.
- Due to the various fees and charges levied by ABC Insurance on your ILAS policy, the return on your ILAS policy as a whole may be lower than the return of the underlying funds\* you selected. Please see page [•] for details of the fees and charges payable by you.
- "Underlying funds" available for selection are the funds listed in the investment option brochure. These (may include) funds authorised by the SFC pursuant to the UT Code, (but may also include other portfolios internally managed by ABC Insurance on a discretionary basis not authorised by the SFC under the UT Code.)

## Important - 3

Long-term features continues to explain

- You may be entitled to a loyalty or special bonus up to a certain percentage of the policy value if you keep your policy for a certain number of years.

## Important - 3

Intermediaries' remuneration states

- "Although you may pay nothing directly to the intermediary who sells /

distributes this ILAS policy to you, the intermediary will receive remuneration which, in effect, will be borne out of the charges you pay. You should ask your intermediary before taking up your ILAS policy to know more about the level or amount of the remuneration that the intermediary will receive in respect of your ILAS policy. If you ask, your intermediary should disclose the requested information to you."

The ILAS Product KFS also highlights the key facts below:

- Quick facts of the ILAS
- What this product is and how it works
- What the key risks are
- If there is any guarantee feature
- Fees and charges levied at scheme and underlying funds level

# For a guide to reading the Product KFS of investment products in general, please refer to "How to Read Product Key Fact Statement" booklet on IEC website.

## What to find in an illustration document?

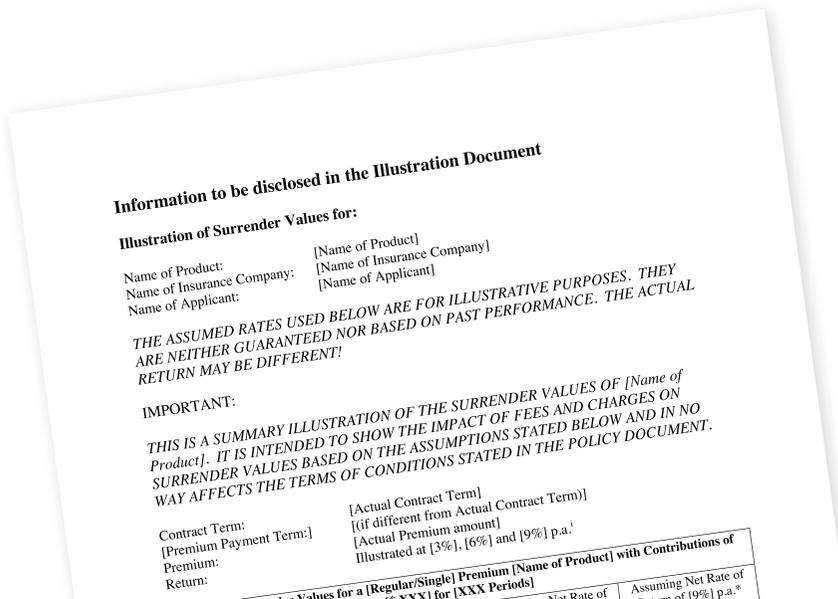
Intermediaries selling the ILAS must explain the illustrated cost structure to you as a potential ILAS buyer.

The insurance company must prepare a personalised illustration document for you to review and sign before you sign the application form of an ILAS.

The document typically shows you the amount that you would expect to receive upon surrender of the ILAS policy based on certain **assumed rates of returns** after deduction of all relevant fees and charges at policy level as disclosed. The figures do not guarantee future gains (unless the policy offers a return guarantee) nor represent any past performance.

It demonstrates the **projected surrender values** over the term of the policy, i.e. the sum of what the policyholder may receive, based on the assumed rates of return, net of all relevant fees and charges at policy level, on surrender.

So, don't confuse the assumed rates (i.e. hypothetical) with the **actual rate of return** of an ILAS.



THE ASSUMED RATES OF RETURN STATED IN THIS ILLUSTRATION ARE FOR ILLUSTRATIVE PURPOSES ONLY. THEY ARE NEITHER GUARANTEED NOR BASED ON PAST PERFORMANCE. THE ACTUAL RETURN MAY BE DIFFERENT. THIS WAY AFFECTS THE TERMS OF CONDITIONS STATED IN THE POLICY DOCUMENT.

Contract Term: [Actual Contract Term]  
 [Premium Payment Term:] [(if different from Actual Contract Term)]  
 Premium: [Actual Premium amount]  
 Return: Illustrated at [3%], [6%] and [9%] p.a.<sup>1</sup>

**1** Projected Surrender Values for a [Regular/Single] Premium [Name of Product] with Contributions of \$ [XXX] for [XXX] Periods

| Number of Years after Policy Issuance | Total Premium Paid since Start of Year | Assuming Net Rate of Return of [3%] p.a.* |               | Assuming Net Rate of Return of [6%] p.a.* |               | Assuming Net Rate of Return of [9%] p.a.* |               |
|---------------------------------------|--|---|---------------|---|---------------|---|---------------|
|                                       |  | Surrender Value                           | Death Benefit | Surrender Value                           | Death Benefit | Surrender Value                           | Death Benefit |
| 1                                     |  |   |               |   |               |   |               |
| 2                                     |  |   |               |   |               |   |               |
| 3                                     |  |   |               |   |               |   |               |
| 4                                     |  |   |               |   |               |   |               |
| 5                                     |  |   |               |   |               |   |               |
| 10                                    |  |   |               |   |               |   |               |
| XX                                    |  |   |               |   |               |   |               |

\* The Surrender values calculated based on the assumed rates of return are for illustrative purposes only. They are neither guaranteed nor based on past performance. The actual return may be different. For more details, please refer to the Principal Brochure.

### Declaration

**3** I confirm having read and understood the information provided in this illustration and received the principal brochure.

Signed & dated: \_\_\_\_\_  
 [Applicant's Full Name in Printed Form]

<sup>1</sup> These assumed rates of return shall comply with the guidelines issued from time to time by the Life Insurance Council of the Hong Kong Federation of Insurers.

**1** This is the amount that you may receive if you cash in your ILAS at the end of each of the first five years of your policy and for every fifth year thereafter until maturity.

These are only “projected values” based on three assumed rates of return. The actual return may be different.

**2** With effect from 1 January 2014, the Projected Surrender Values above are calculated based on **three maximum assumed rates of return**, i.e. **3%**, **6%** and **9%** (excluding fund management charges levied by the fund houses).

\* Note: Currently, the assumed net rates of return of the Projected Surrender Values (excluding fund management charges levied by both the insurers and the fund houses) are set at a low of not more than 5% p.a.; and a high of not more than 9% p.a..

These assumed rates of return shall comply with the guidelines issued from time to time by the Life Insurance Council of the Hong Kong Federation of Insurers.

Insurance companies should seek advice from their appointed actuaries on the relevant rates used having regard to the acceptable industry standards.

**3** Don't sign under the declaration unless you fully understand the information in the illustration document, and have received the Principal Brochure.

## How to complain

If you wish to make a complaint about an ILAS product, the first step is to contact the complaint officer of the bank, insurance company, agent or broker you dealt and to raise your concerns with them.

If you are not satisfied with the answer you receive or the way they handle the complaint, you may wish to contact the relevant organisations below -

| What  | Where   | How   |
|---|---|---|
| Complaints about the ILAS product disclosure documents  | Securities and Futures Commission (SFC)                               | <ul style="list-style-type: none"> <li>☎ 2231 1222</li> <li>✉ <a href="mailto:complaint@sfc.hk">complaint@sfc.hk</a></li> <li>@ <a href="http://www.sfc.hk">www.sfc.hk</a></li> </ul>                               |
| Complaints about the conduct of insurance agents, including banks and their staff who sell ILAS   | Insurance Agents Registration Board (IARB) which is set up under HKFI | <ul style="list-style-type: none"> <li>☎ 2520 1868</li> <li>✉ <a href="mailto:hkfi@hkfi.org.hk">hkfi@hkfi.org.hk</a></li> <li>@ <a href="http://www.hkfi.org.hk">www.hkfi.org.hk</a></li> </ul>                     |
| Complaints about the conduct of insurance brokers   | The Hong Kong Confederation of Insurance Brokers (CIB)                | <ul style="list-style-type: none"> <li>☎ 2882 9943</li> <li>✉ <a href="mailto:info@hkci.org">info@hkci.org</a></li> <li>@ <a href="http://www.hkcib.org">www.hkcib.org</a></li> </ul>                               |
|   | Professional Insurance Brokers Association (PIBA)                     | <ul style="list-style-type: none"> <li>☎ 2869 8515</li> <li>✉ <a href="mailto:info@piba.org.hk">info@piba.org.hk</a></li> <li>@ <a href="http://www.piba.org.hk">www.piba.org.hk</a></li> </ul>                     |
| Complaints about insurance companies, agents or brokers   | Insurance Authority (IA)  | <ul style="list-style-type: none"> <li>☎ 2867 2565</li> <li>✉ <a href="mailto:iamail@oci.gov.hk">iamail@oci.gov.hk</a></li> <li>@ <a href="http://www.oci.gov.hk">www.oci.gov.hk</a></li> </ul>                     |
| Complaints about banks and their staff  | Hong Kong Monetary Authority (HKMA)                                   | <ul style="list-style-type: none"> <li>☎ 2878 1378</li> <li>✉ <a href="mailto:bankcomplaints@hkma.gov.hk">bankcomplaints@hkma.gov.hk</a></li> <li>@ <a href="http://www.hkma.gov.hk">www.hkma.gov.hk</a></li> </ul> |
| Disputes with financial institutions authorized by the HKMA (e.g. banks) or licensed by / registered with the SFC involving monetary loss | Financial Dispute Resolution Centre                                   | <ul style="list-style-type: none"> <li>☎ 3199 5199</li> <li>✉ <a href="mailto:fdrc@fdrc.org.hk">fdrc@fdrc.org.hk</a></li> <li>@ <a href="http://www.fdrc.org.hk">www.fdrc.org.hk</a></li> </ul>                     |

## How to find more useful information

| What   | Where   |
|--|---|
| <ul style="list-style-type: none"> <li>■ General information and education materials for consumers and investors</li> <li>■ Subscription to e-newsletters on financial education</li> </ul>  | Investor Education Centre (IEC)<br>@ <a href="http://www.hkiec.hk">www.hkiec.hk</a>   |
| <ul style="list-style-type: none"> <li>■ List of SFC-authorized ILAS</li> <li>■ Offering documents of ILAS</li> <li>■ Issuers of ILAS</li> </ul>   | Securities and Futures Commission (SFC)<br>@ <a href="http://www.sfc.hk">www.sfc.hk</a>   |
| <ul style="list-style-type: none"> <li>■ Regulatory framework</li> <li>■ List of authorized insurers</li> <li>■ Industry statistics</li> </ul>   | Office of the Commissioner of Insurance<br>@ <a href="http://www.oci.gov.hk">www.oci.gov.hk</a>   |
| <ul style="list-style-type: none"> <li>■ Regulatory framework of banks</li> <li>■ inSight article “<i>Consider the Important Facts before you decide to take up an investment-linked assurance scheme (ILAS) product</i>” issued on 22 April 2013</li> </ul> | Hong Kong Monetary Authority (HKMA)<br>@ <a href="http://www.hkma.gov.hk">www.hkma.gov.hk</a>   |
| <ul style="list-style-type: none"> <li>■ Insurance agents’ registration status and registration history</li> <li>■ Contact information of insurance companies and insurance agencies</li> </ul>  | Hong Kong Federation of Insurers (HKFI)<br>@ <a href="http://www.hkfi.org.hk">www.hkfi.org.hk</a>   |
| <ul style="list-style-type: none"> <li>■ Insurance brokers’ registration status at CIB and PIBA</li> <li>■ Contact information of insurance brokers</li> </ul>   | The Hong Kong Confederation of Insurance Brokers (CIB)<br>@ <a href="http://www.hkcib.org">www.hkcib.org</a><br>Professional Insurance Brokers Association (PIBA)<br>@ <a href="http://www.piba.org.hk">www.piba.org.hk</a> |

This booklet is designed to provide a general overview of ILAS and its regulatory regime. It is not a comprehensive treatment of the subject matter covered and is not intended to provide legal or financial advice. Readers should seek such professional advice if deemed necessary.

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 2700 6000

 [info@hkiec.hk](mailto:info@hkiec.hk)

 [www.hkiec.hk](http://www.hkiec.hk)