



HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref: B1/15C
C2/5C

25 May 2018

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Expansion of Types of Life Insurance Products Eligible for Exemption from Financial Needs Analysis

I am writing to draw your attention to the circular of the Hong Kong Federation of Insurers (“HKFI”) entitled “Initiative on Financial Needs Analysis” that was updated on 2 May 2018 (the “HKFI FNA Circular”). The HKFI FNA Circular, on which the Hong Kong Monetary Authority (“HKMA”) had been consulted, expands the types of life insurance products eligible for exemption from financial needs analysis (“FNA”) under specified circumstances. Having consulted the Insurance Authority (“IA”), the HKMA hereby provides guidance to authorized institutions (“AIs”) in compliance with the HKFI FNA Circular.

Exemptions under Requirement 2 of the HKFI FNA Circular

Requirement 2 of the HKFI FNA Circular newly sets out that FNA is not required for two types of life insurance products, namely (a) non-participating endowment products with guaranteed payment upon maturity, and (b) universal life products which provide surrender value not less than total premium paid at all times, to be sold directly from an insurer or an AI in the capacity as the insurer’s agent to customers through digital distribution channel (e.g. webpage / mobile app) without recommendation.

In this connection, AIs should put in place adequate policies and procedures, controls and monitoring, and provide sufficient staff training, to ensure compliance with the relevant regulatory requirements. In particular:

- AIs should ensure that the information stipulated in items (i) to (iv) under Requirement 2 of the HKFI FNA Circular is provided clearly and prominently on the digital distribution channels so that customers are made aware of such information and warnings regarding the relevant products. As required in the HKFI FNA Circular, the existing

requirements on product disclosure¹ remain applicable;

- apart from the requirement stipulated in the HKFI FNA Circular that no recommendation should be given on the digital distribution channel, AIs should also implement effective measures to ensure that no recommendation is given via other channels² insofar as that exempted transaction is concerned; and
- AIs' management information system and their independent units' regular review of the sale of non-investment-linked long term insurance products should cover transactions exempted under Requirement 2 of the HKFI FNA Circular. Any irregularities or issues identified should be followed up timely and properly, and should be escalated to senior management of the AI as appropriate.

Simplified suitability assessment prior to recommendation of exempted products under Requirement 1 of the HKFI FNA Circular

The HKMA's circular "Selling of Life Insurance Products" of 4 August 2015 provides that (i) the FNA exemption arrangement should not be applied to specified refundable insurance products if such products include a substantial savings component, and (ii) AIs may adopt a simplified suitability assessment approach³ prior to making any recommendation of the exempted products (subject to (i) above) under Requirement 1 of the previous version of the HKFI FNA Circular (effective 1 January 2016), irrespective of online or offline distribution channel. AIs are reminded that the above remain applicable to AIs' sale of the exempted products specified⁴ under Requirement 1 of which

¹ Examples of the existing product disclosure requirements include those set out in the IA's "Guideline on Underwriting Long Term Insurance Business (Other Than Class C Business)" and the HKMA's circulars, for instance "Selling of Non-Linked Long Term Insurance ("NLTI") Products" issued on 8 December 2014 and "Selling of Life Insurance Products" issued on 4 August 2015.

² For example, offline interaction (if any) between the AI's staff and the customer.

³ This refers to (i) through inviting the customer to answer Question 1 in the Appendix to the HKFI FNA Circular to ascertain whether the customer has the need(s)/objective(s) which match(es) with the nature and features of the insurance plan before recommendation, and to explain clearly to customer how the recommended plan matches his/her need(s)/objective(s), and (ii) not to recommend any insurance plan where information available to the AI reveals any issue of concern about the customer's affordability.

⁴ These include: (i) term insurance policies; (ii) refundable insurance policies providing hospital cash, medical, critical illness, personal accident, disability and/or long-term care cover; (iii) yearly renewable insurance policies (without cash value) providing hospital cash, medical, critical illness, personal accident, disability and/or long-term care cover; and (iv) group policies.

the scope has been expanded by the HKFI FNA Circular.

The above guidance takes effect along with the HKFI FNA Circular, i.e. on 1 June 2018.

Should you have any question about this letter, please contact Mr Kevin Sham at 2878-1594 or Mr Savio Chan at 2878-1431.

Yours faithfully,

Alan Au
Executive Director (Banking Conduct)

c.c. Insurance Authority
(Attn: Ms Carol Hui, Executive Director (Long Term Business),
Mr Stephen Po, Executive Director (Market Conduct))