



HONG KONG MONETARY AUTHORITY  
香港金融管理局

Our Ref: B1/15C  
C2/5C

6 June 2018

The Chief Executive  
All Authorized Institutions

Dear Sir / Madam,

**Selling of Annuity Insurance Products**

In view of the increasing popularity of annuity insurance products and that some of these products are becoming more complex, the Hong Kong Monetary Authority (HKMA) considers it necessary to enhance the practices of authorized institutions (AIs) in selling annuity insurance products with a view to ensuring adequate protection of customers.

In this connection, the HKMA has engaged in discussions with the Insurance Authority and the banking industry to introduce the following measures that AIs are required to put in place in selling annuity insurance products at retail level, in addition to the existing requirements applicable to AIs in selling non-investment-linked long term insurance (NLT) products.

***(1) Audio-recording***

AIs should audio-record the selling process of annuity insurance products and ensure that such audio records are adequately maintained and readily accessible as and when necessary to demonstrate that the selling process has been duly conducted. The selling process to be audio-recorded should cover: (i) suitability assessment (including handling of mismatches (if any), provision of alternatives and rationales for the recommendation); (ii) disclosure of product nature, features (including but not limited to benefits) and risks; and (iii)

completion of the Customer Protection Declaration (CPD) Form<sup>1</sup>.

The audio-recording requirement applies to both vulnerable customers<sup>2</sup> (VCs) and non-VCs, while non-VCs are allowed to opt out of the arrangement. If a non-VC chooses to opt out, the AI should comply with the requirements set out in the Annex.

## ***(2) Selling and marketing activities in branches***

AIs are allowed to conduct selling and marketing of annuity insurance products in any areas of their branches provided that such areas are proper facilities that are not teller counters. In addition to the existing requirement of disclosing to customers that the annuity insurance product is an insurance product, AIs should clearly explain to customers during the selling process that purchasing annuity insurance product is not a general banking transaction like cash deposit, withdrawal or fund transfer.

The requirements of this circular should be implemented no later than 31 August 2018. AIs are reminded that they should have adequate policies and procedures, controls and monitoring in place, and provide sufficient staff training to ensure compliance with all applicable regulatory requirements in selling annuity insurance products.

For the avoidance of doubt, this circular applies to the selling of all types of annuity insurance products<sup>3</sup> and other NLTIs products that may annuitize the

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<sup>1</sup> This refers to the completion of both Section A and Section B (where applicable), of the CPD Form template attached to The Hong Kong Federation of Insurers' Code of Practice for Life Insurance Replacement. The audio-recording should cover the process that the sales staff helps the customer to complete the CPD Form (including but not limited to clearly explaining to the customers the definition of "replacement" for the customer to answer Section A of the CPD Form) and be able to demonstrate that the sales staff has duly performed the obligations set out in relevant regulatory requirements.

<sup>2</sup> Examples of vulnerable customers include: (i) the elderly (aged 65 or above); (ii) the illiterate or those with low education level (primary or below); (iii) the visually impaired; and (iv) customers who have limited means.

<sup>3</sup> Including but not limited to period certain annuity, life annuity, temporary life annuity, life annuity with period certain, life annuity with cash refund or instalment refund, etc.

cash value of the policy<sup>4</sup>.

If you have any question on this circular, please feel free to contact Mr Kevin Sham at 2878-1594 or Ms Candy Tam at 2878-1292.

Yours faithfully,

Alan Au  
Executive Director (Banking Conduct)

Encl.

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

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<sup>4</sup> For the avoidance of doubt, in the HKMA's Survey on Sale of Insurance Products, AIs should report all types of annuity insurance products under "Annuity Insurance", but other NLTI products that may annuitize the cash value of the policy should be reported under their respective product types. However, AIs should ensure that separate reporting figures for the other NLTI products that may annuitize the cash value of the policy are readily available.

**Requirements for opting out of the audio-recording arrangement  
by non-VCs in the selling of annuity insurance products**

1. AIs should provide and explain to the customer a separate fact sheet which sets out important product information and the customer's choice to opt-out in plain language and an easily readable font. AIs should ensure the accuracy and completeness of the information in the fact sheet and work with the insurer as appropriate to produce the fact sheet. The fact sheet should make clear the following points<sup>1</sup> to the extent applicable:
  - (i) Nature and tenor of the plan:
    - The plan is an insurance plan and is underwritten by [insurer name]. The plan is neither a bank deposit nor a bank savings plan. The customer is subject to the credit risk of [insurer name].
    - Timeframes of relevant features, e.g. policy term; premium payment period and frequency; accumulation period; income period and frequency; and guaranteed period.
    - Consequences of non-payment of premium.
    - Inflation risk facing the customer.
    - At maturity or termination of the policy, cash value and/or death benefit will/may reach zero or be significantly lower than the total premium paid by the customer.
    - At the end of income period, the customer will not receive any cash value.
    - There is no cash value and/or death benefit payable after the guaranteed period or after the guaranteed minimum total payment amount has been paid to the customer.
  - (ii) Non-guaranteed benefits of the plan – the specific part(s) of the benefits which is/are not guaranteed; impact on annuity income if the non-guaranteed benefits are not achieved, etc.
  - (iii) Withdrawal and full surrender – consequences of withdrawal on annuity income, cash value, death benefit and/or other benefits of the

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<sup>1</sup> Some terminologies and information in items (i) to (iv) of paragraph 1 are specific to annuity insurance products. For other NLTII products that may annuitize the cash value of the policy, corresponding features and risks should be included in the fact sheet.

policy; consequences of full surrender (e.g. sum of surrender value and cumulative annuity income paid to the customer may be significantly lower than the total premium paid by the customer); consequences of exercising annuity option before maturity or termination of the policy.

- (iv) Risks associated with different death benefit payment options – e.g. sum of the death benefit and the cumulative amount of annuity income paid to the customer may be significantly lower than the total premium paid by the customer.
2. The customer should be requested to sign on the fact sheet against each of the four broad items mentioned in paragraph 1 above to confirm that he/she has read and understood such information of the annuity insurance product. The customer should also sign on the fact sheet to indicate his/her own choice to opt out of the audio-recording arrangement.
  3. AIs should remind the customer of his/her cooling-off rights and that during the cooling-off period, the customer can seek advice from family members or financial advisers on his/her purchase of the annuity insurance product.
  4. If the requirement of post-sale confirmation call<sup>2</sup> is applicable, AIs should, through collaboration with the insurer, have the post-sale call confirm with the customer that he/she has taken the option to opt out of the audio-recording arrangement. AIs should ensure the relevant parts of the call are audio-recorded and the audio record is properly maintained and readily available to the AIs.
  5. AIs should have proper controls and provide adequate training to prevent its staff from inducing non-VCs to opt out of the audio-recording arrangement.

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<sup>2</sup> As required by the Insurance Authority and/or the Hong Kong Federation of Insurers.