



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our ref: B1/15C
B9/188C

21 January 2020

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

BELR Rule 29(2) – Life Insurance Policy as Acceptable Security

The HKMA has received a number of enquiries on whether life insurance policy is an acceptable security for the purposes of Part 5 of the Banking (Exposure Limits) Rules (“BELR”) on financial facility provided to employee.

Life insurance policy is a popular product distributed by AIs nowadays and many AIs consider the risks of taking it as collateral to be low. However, if an employee can borrow fully from the employer AI to take up the life insurance policy using it as collateral, it may create incentive problem by enabling the employee to acquire the insurance policy without actual cash flows at all. There is a risk that such use of resources may not be in the best interest of the depositors.

To strike a balance between prudential regulation and allowing room for AIs to design their own staff loan policies, we therefore consider that life insurance policy should only be accepted as security for financial facility to employee if certain criteria are met. On the other hand, we also acknowledge the need of special arrangements to avoid this policy creating hardship on the employees who have existing financial facilities secured by life insurance policy.

Given the foregoing, pursuant to BELR rule 29(2), I confirm that life insurance policy is acceptable to a prudent banker

- without condition for the financial facilities already granted or provisionally granted to an employee on or before the date of this letter -
 - (i) which are term facilities; or
 - (ii) which are revolving facilities until the date the facilities are due for annual credit review for the first time after 31 December 2020

(the value of the life insurance policy as security should be measured at the lower of the cash value or surrender value of the life insurance policy, or a more prudent internal valuation); and

- only if the criteria in the Annex are met for all the financial facilities granted after the date of this circular or existing revolving financial facilities from the date that the facilities are due for annual credit review for the first time after 31 December 2020.

We intend to amend paragraph 4 of the Banking (Exposure Limits) Code to include life insurance policy (with conditions) as a security that is “acceptable to a prudent banker” when the next opportunity arises.

To avoid doubt, following the BCBS large exposures standards, the definition of recognized collateral under Part 7 of the BELR does not include life insurance policy. A similar definition also applies to Part 8 of the BELR.

If you have any questions on this letter, please contact Mr Andy Cheung on 2878-1022 or Ms Amy Siu on 2878-1321.

Yours faithfully,

Frank Leung
for Monetary Authority

Encl

cc: FSTB (Attn: Ms Eureka Cheung)