保險業監管局
Insurance Authority

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5 August 2020 By Email Only

To: Chief Executives of authorized insurers carrying on long term insurance business

Dear Sirs,

Sandbox application for the distribution of long term insurance policies via video conferencing tools

Background

The IA has been working closely with the HKFI InsurTech Task Force on initiatives involving the use of technology for non-face-to-face ("non-F2F") distribution of long term insurance products. The pandemic situation caused by COVID-19 also prompts the need for measures to minimize the risk of infection during the sales process of insurance products.

Issues arising out of the use of non-F2F distribution methods

Despite the fact that insurance market of Hong Kong is relatively mature and developed, there exists a noticeable structural imbalance in the life market towards insurance products with significant savings or investment elements and a glaring protection gap. The IA sees merit in the more extensive use of InsurTech to address these issues. InsurTech can be a powerful tool to direct attention towards personal needs and risk mitigation, widen the range of distribution channels, and enrich the mix of more affordable insurance products.

That said, the use of technology will invariably bring about new challenges in areas such as cybersecurity and other potential impediments which otherwise do not exist in a face-to-face setting. Such potential impediments may be caused by intermittent interruption during the sales process, an inability to physically and instantly share documents, issues in performing KYC effectively, and difficulties in obtaining signature etc, which in turn affect the strict adherence to the various supervisory requirements governing the sales of long term insurance products.

Compensating measures need to be put into place to address such potential impediments and ensure that the principle of fair treatment of customers is strictly adhered to when non-F2F meetings are carried out through InsurTech initiatives such as video conferencing ("VC").

Information to be provided for the Sandbox application

Insurers are required to submit applications through the InsurTech Sandbox (with information to be shared with the HKMA if bank channel is involved). Other than the requirements set out for the InsurTech Sandbox and other applicable guidelines (e.g. GL20 on cybersecurity, GL3 on Anti-Money Laundering and Counter-Terrorist Financing ("AML/CTF"), GL14 on outsourcing etc), insurers will be required to provide the IA with the following information upon application –

(i) Detailed information about the process, procedures and controls to be put in place for the sales process using VC.

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(ii) Control and monitoring measures to be put in place to ensure compliance with the applicable requirements concerning the use of VC (e.g. GL 16 on underwriting long term insurance business (other than Class C Business), GL30 on Financial Needs Analysis, GL27 on policy replacement, GL28 on benefit illustrations etc).

(iii) Details of the AML/CTF controls, including ML/TF risk assessments and the corresponding additional measures relating to non-F2F onboarding of customers.

(iv) Details of the Sandbox trial including types of long term insurance products to be covered, length of the trial period (including different phases, if any), target customers (i.e. new / existing / vulnerable customers / Mainland China Visitors ("MCV") etc), VC facility to be used (i.e. proprietary or third-party) and the technical assessment of its security etc.

(v) Detailed information about the signature requirements (i.e. "signatures" must be legally binding and customers must be fully aware of the documents to be signed during the sales process).

<u>Requirements for the use of VC tools to distribute long term insurance products</u>
Other than those additional conditions to be imposed by the IA on individual applications, insurers (and intermediaries where applicable) will be required to comply with the following –

(i) Adequate control and monitoring measures to ensure that customers are not adversely affected due to the use of VC based on the principle of fair treatment of customers.

(ii) Adequate control and monitoring measures to ensure that customers are provided with all the required documents and that the information transmitted during the process is clear, correct, complete and legible.

(iii) Each VC session must be logged and identified with an audit trail.

(iv) Adequate control and monitoring measures must be put into place to ascertain the locality of the customers before the sales process begins. For example, if MCV are involved, effective measures (e.g. IP filtering, GPS tagging, show of entry proof etc) must be put into place to ensure that the customers are physically located in Hong Kong before the sales process begins.

(v) End-to-end recording (i.e. video with audio or audio only) of each VC session must be carried out (unless otherwise opted out by the customer, and in such case the opt-out decision itself must be recorded).

(vi) The relevant recording must be kept for at least 7 years (or such shorter period as amended by the IA) after the termination of the relevant insurance policy(ies) sold. For the avoidance of doubt, in the case where there are more than one policy sold to the same policyholder(s) under the same process, the relevant recording should be kept for not less than 7 years (or such shorter period as amended by the IA) after the last policy terminates. For those cases where no policies are taken out by the customers after the sales process, the recording for the VC sessions should be kept for at least 12 months if the completed FNA forms would be kept for future use within the 12-month validity period as permitted under 6.9 of GL30.

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(vii) Ongoing assessment on the security (including data protection and privacy) of using VC facility to ensure emerging risks and vulnerabilities are identified, mitigated and monitored in a timely manner, and that control measures in place remain effective and comply with relevant laws and regulatory requirements at all times.

(viii) Effective control and ongoing monitoring mechanism on the following –

(a) intermediaries with significantly higher than average opt-out rate for end-to-end recording;
(b) VC sessions without recording of customer confirmation for opt-in or out;
(c) VC sessions with opt-out confirmation recording only;
(d) any unauthorized access and usage of the VC facilities; and
(e) only VC facilities provided by the insurers are used by the intermediaries in the sales process.

(ix) Prior consent from the IA be sought for any changes to the information provided to the IA in support of the Sandbox application.

(x) Appropriate training should be provided to the intermediaries before they are allowed to use the VC facilities.

(xi) Notifying the IA forthwith of –

a. any sudden surge of complaints arising from the operation;
b. the need to trigger the exit strategy and the relevant details of the exit plan; or
c. any other adverse event (actual or potential) that is material to the proper operation of the Insurtech Sandbox trial and/or official launch (e.g. cybersecurity breach, leakage of personal data of customers, material system failure etc)

In case of doubt, please contact your case officers accordingly.

Yours faithfully,

Carol Hui
Executive Director, Long Term Business
Insurance Authority

c.c. The Hong Kong Federation of Insurers