



HONG KONG MONETARY AUTHORITY  
香港金融管理局

Our Ref: B1/15C  
C2/5C

16 October 2023

The Chief Executive  
All Authorized Institutions

Dear Sir / Madam,

**Premium Financing Activities for Insurance Policies**

It has come to the attention of the Hong Kong Monetary Authority (“HKMA”) that some authorized institutions (“AIs”) have relied on clauses embedded in the terms and conditions in loan agreements to change the basis of interest rate under premium financing facilities. Such practice may cause ambiguity to customers as the change of basis may not have been set out clearly in the relevant product documents or drawn to the attention of customers, which may invite questions from the customers on the adequacy of disclosure.

This circular aims to remind AIs of the need for proper disclosure, and to clarify the disclosure requirements of interest rate when providing premium financing facilities to customers. For the avoidance of doubt, this circular is applicable to AIs and their subsidiaries as premium financing facility providers.

- (i) Upon receiving applications from customers for premium financing facilities, the relevant staff members of AIs should draw the attention of the customers to **all** building blocks for determining the applicable interest rate under the facilities. These include all benchmark interest rates (e.g. HIBOR-based and Prime-based interest rates) as well as the cost of fund of the AI, where applicable. In particular, if an AI has the discretion to adopt its cost of fund (e.g. if it is higher than the interest rate calculated using the benchmark interest rates) to determine the applicable interest rate under the facilities, this fact should be drawn to the attention of the customers.

- (ii) All the building blocks for determining the applicable interest rate under the premium financing facilities should also be disclosed in adequate and equal prominence under the same part of the facility letters. For example, where the AI has the discretion to adopt its cost of fund over a general interest rate formula of say HIBOR (of a specific tenor) plus [X%] or Prime rate plus or minus [Y%], all these three possible interest rate scenarios (i.e. the AI's cost of fund, HIBOR-based interest rate and Prime-based interest rate) should be shown in adequate and equal prominence under the same part of the facility letters.
- (iii) AIs should provide adequate training to all relevant staff members to ensure that they fully understand and comply with the requirements set out under paragraphs (i) and (ii) above.

AIs are required to ensure that the clarified disclosure requirements are applied to new premium financing facilities as soon as practicable and in any case within 3 months of the date of this circular.

For existing premium financing facilities, AIs are reminded to properly handle any customer enquiries. In case deficiencies were found in such disclosure by AIs, AIs are reminded to follow up and remediate with the customers as appropriate.

If you have any questions on this circular, please contact Ms Candy Tam at 2878-1292 or Mr Ken Chan at 2878-1373.

Yours faithfully,

Alan Au  
Executive Director (Banking Conduct)

c.c. Insurance Authority  
(Attn: Mr Marty Lui, Head of Long Term Business (Acting)  
Mr Peter Gregoire, Head of Market Conduct and General Counsel)