27 June 2024

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HKMA/B1/15C

To: Chief Executives of all authorized insurers carrying on long term business, Responsible Officers of all licensed insurance broker companies and licensed insurance agencies carrying on long term business, and Chief Executives of all authorized institutions

Dear Sirs/Madams,

**Findings from IA-HKMA joint inspection exercise on premium financing**

Following the commencement of the supervisory standards and requirements on premium financing[1] (**"PF"**) on 1 January 2023 (the "**Standards**"), the Insurance Authority (the **"IA"**) and the Hong Kong Monetary Authority (the "**HKMA**") jointly announced and carried out a new round of joint inspection exercise on PF activities in late 2023, with the objectives to assess the industry's level of compliance with the Standards, gauge the latest market trends under the higher interest rate environment, and identify potential areas for further regulatory attention. The joint inspection exercise has been completed by the two regulators recently.

This circular serves to share the key observations from the joint inspection and highlights the good practices and potential areas for enhancement, by providing further details on the expectations with regard to compliance with the Standards and other relevant regulatory requirements.

It was found that authorized insurers and licensed insurance intermediaries were generally able to comply with the Standards and to make due efforts to ascertain and assess the customers' circumstances with respect to their use of PF. Most authorized insurers would adopt a more prudent threshold than the Standards when assessing whether a customer is having a risk of over-leveraging[2] and would reject applications with a risk of over-leveraging. The newly introduced disclosure requirement "Important Facts Statement – Premium Financing" ("IFS-PF") was widely adopted across all intermediaries' channels.

[1] Please refer to the circulars on the supervisory standards for PF issued by the IA and the HKMA respectively on 1 April 2022.

[2] The risk of over-leveraging exists when loan repayment requested by the lender before maturity of the policy cannot be fully met by the customer's own funds and can only be met using surrender value of the proposed policy.

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Some good practices were also observed amongst authorized insurers and licensed insurance intermediaries, for example:

- adopting a more conservative approach to affordability analysis by applying loan stress testing and/or assets haircut;
- displaying the leverage ratio in the financial needs analysis ("FNA") form and explaining its implication to the customers; and
- conducting post-sale calls to PF customers depending on the circumstances, not just to vulnerable customers.

Having said that, there were issues noted in the individual cases which fell short of the regulators' expectations, for example:

- Some insurers and intermediaries were unaware that recommendations/solicitations involving the use of PF without first ascertaining the loan details are not permitted under the Standards;
- A market practice was found where customers with potential affordability mismatch were asked to "reconfirm" their financial circumstances, by revising the FNA form multiple times to increase the available financial resources or premium paying appetite, which casts doubts about the customer's true circumstances;
- Some reference letters issued by banks, that the insurers have used as asset proof and for Know-Your-Customer purposes, were found containing incorrect and ambiguous information about the customer which was not duly verified;
- Some IFS-PF were not duly completed prior to policy issuance due to operational oversight;
- Some suspected non-compliance cases were noted with product recommendations made before the completion of the FNA; and
- Some lending banks conducted credit assessment only based on customers' ability to repay monthly interest without ascertaining whether a risk of over-leveraging existed.

Details of the observations of the two regulators can be found in the **Annex** and the relevant findings have been shared with individual insurers and insurance intermediaries for appropriate follow-up actions (where applicable).

Authorized insurers and licensed insurance intermediaries are hereby reminded to continuously observe the Standards and all relevant regulatory requirements, and benchmark good practices where appropriate.

Given the current higher interest rate environment compared to previous years, authorized insurers and licensed insurance intermediaries are also reminded to exercise due care to customers in particular regarding the increased risks with the use of PF. The two regulators will keep closely monitoring the market development of PF and continue to enhance awareness and education of customers where necessary.

For enquiries about the contents of this circular, please contact:

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Yours faithfully,

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c.c. The Hong Kong Federation of Insurers
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Professional Insurance Brokers Association