HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Conduct Department *銀行操守部*

Our Ref: B1/15C
C2/5C

8 December 2014

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Selling of Non-Linked Long Term Insurance ("NLTI") Products

During its supervisory process including on-site examinations and mystery shopping exercise as well as handling of customer complaints, the Hong Kong Monetary Authority ("HKMA") has noticed that the selling practices in respect of NLTI products[1] vary among authorized institutions ("AIs") and has identified various areas for improvement in the selling practices. In this connection, the HKMA has engaged in discussions with the Insurance Authority ("IA") and the banking industry. To enhance the selling practices with a view to ensuring appropriate protection of the interests of customers, the HKMA expects AIs to adopt the practices set out in **Annex** in their selling of NLTI products, to the extent applicable, including selling new NLTI plans as well as top up applications for existing NLTI plans. Considering the unique circumstances of banking environment and the special trust in banks by their customers, the HKMA and the IA agree that the practices set out in **Annex** would enhance protection of bank customers and ensure that appropriate NLTI products are sold to the appropriate customers.

These practices rest upon the overarching principle that AIs, as intermediaries, have the responsibility to take reasonable steps to ensure proper selling practices are adopted and that customers are treated fairly in the sales process of NLTI products. AIs should review and ensure that adequate policies, procedures and controls are implemented for adoption of the practices set out in **Annex** in the sale of NLTI products, and any necessary enhancements should be implemented as soon as practicable and not later than nine months from the date of this circular. For the avoidance of doubt, in respect of those expected practices for which

[1] Examples of NLTI products include term life insurance plans, endowment insurance plans, annuity insurance plans, whole life insurance plans and universal life insurance plans, etc. which are products under Class A of long term business specified in Part 2 of the First Schedule to the Insurance Companies Ordinance ("ICO"). For the avoidance of doubt, even if the policy term of a NLTI product is relatively short, as long as it belongs to long term business under the ICO, the selling of such a product by AIs is still subject to this circular. This circular does not cover selling of investment-linked assurance scheme products.

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individual AI has agreed with the HKMA on the specific implementation timeline(s), the agreed timeline(s) should prevail over the above general timeline of nine months. AIs should also conduct sufficient staff training for the implementation of the practices.

As the practices set out in this circular are provided in light of the HKMA's supervisory findings, they do not cover all requirements applicable to AIs' intermediary activities in respect of NLTI products, particularly those issued by the IA and the Hong Kong Federation of Insurers ("HKFI"). AIs should ensure that they continue to comply with all applicable regulatory requirements.

If you have any question on this letter, please feel free to contact Mr Kevin Sham at 2878-1594 or Ms Angel Chan at 2878-1606.

Yours faithfully,

Carmen Chu

Executive Director (Banking Conduct)

Encl.

c.c. Insurance Authority